



## NEWS: EUROPE

German opposition fears Bonn policy towards east is fostering growth of far right

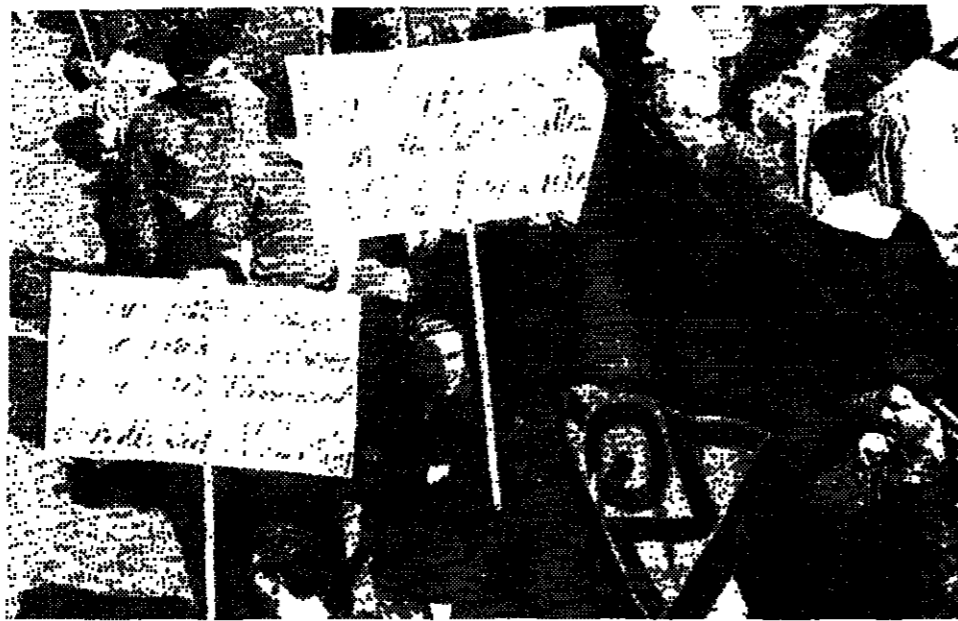
## SPD warns of threat to democracy

By Quentin Peel in Bonn

GERMANY'S democratic system will be "threatened" if there is not an early and radical change in government policy towards eastern Germany and the costs of unification, the opposition Social Democrats (SPD) warned yesterday.

Accusing the coalition government of Chancellor Helmut Kohl of "disguising" the extent of economic collapse in the east of the country, of underestimating the costs of recovery, and of lacking any serious ideas to deal with it, Mr Björn Engholm, the SPD leader, announced his own readiness to form an alternative government.

The escalation in the conflict between the opposition and the government appears to be a direct consequence of a clear swing in the latest elections to extreme right-wing parties, and to growing talk of the need for a grand coalition between the SPD and Mr Kohl's Christian Democrats (CDU) to deal with the unification crisis.



Metalworkers demonstrate yesterday near Stuttgart in support of their pay claim

In spite of his blunt criticism, Mr Engholm has agreed to take part in cross-party talks on May 27, provided that they discuss the government's budget crisis, and its entire strategy for reviving the east German economy. At the same time he has ordered his party machine to prepare a complete alternative government programme, to be ready within

two months, in an open challenge to the Kohl coalition.

Yesterday the party agreed to call for a new tax surcharge on the higher-paid, and on German enterprises, to reduce the yawning public sector deficit, currently running at DM45bn for central government alone.

The direct warning came from Mr Harald Ringdorf, chairman of the Social Democrats in the eastern state of Mecklenburg-Vorpommern, who warned that "parliamentary democracy will be in danger" if there was no improvement in the eastern economy. He said evidence from schools in the former east Germany suggested that half the pupils, even in the elite "gymnasium" schools, were listening to parties from the extreme right.

He said that the real level of unemployment meant that one in every two potential workers was jobless in many areas, and he called for a change in the entire industrial strategy of the Treuhand privatisation agency to promote active restructuring of old enterprises.

## Franco-German corps takes shape

By Quentin Peel in Bonn and David White in London

FRANCE and Germany will next week finalise the concept and tasks of their planned European defence corps, including an independent command structure, which could run into strong objections by other Nato member states.

A joint Franco-German military delegation yesterday met UK defence officials to try to allay British fears that the attachment of German units to the corps would conflict with Nato planning.

The German embassy in London described the talks as "constructive".

Chancellor Helmut Kohl said yesterday that the planning staff for the corps, intended to be the nucleus of a future fully-fledged European defence army, would begin its work in July.

According to government officials in Bonn, the two sides have ironed out their principal differences, and will set a time-

table culminating in final establishment of the corps in October, 1995.

They said Mr Kohl and President François Mitterrand would sign a treaty on the creation of the corps at a summit at La Rochelle in France on May 21-22.

The chancellor said any other member states of the Western European Union were invited to join the unit, which will be built on the existing Franco-German brigade and is intended to be put under the WEU umbrella.

The German troops in it will also remain assigned to Nato. The fear of some other Nato members, including Britain, is that the command arrangements for the new corps will dilute the German units' commitment to Nato and interfere in their full participation in Nato exercises.

The German argument is that, on the contrary, the plan will bind the French contingent in the force more closely to Nato forces.

## Delors denial on Brussels powers

By David Gardner in Strasbourg

EUROPEAN Commission president Jacques Delors vigorously denied yesterday that he had any intention of trying to increase the powers of the Community's executive at the expense of small member states as the precondition for admitting new EC members.

He made his denial in an interview with the Danish newspaper Politiken in an attempt to scotch rumours before next month's delicately poised referendum in Denmark on the Maastricht treaty.

Mr Delors was reported to have been canvassing changes to make it possible for a bigger Community to function. Decisions are already slow in coming with 12 members in EC institutions set up to accommodate the original six member states.

A smaller Commission, with greater supranational powers but more accountable to the Council of Ministers and the European Parliament, was the central idea Mr Delors is said to have been considering.

The suspicion was that such a Commission would weaken the role of the six-month rotating presidency of the Community.

This would weaken the position of small member states, which hold it just as often as the large, core countries, while the latter would maintain their influence through more prominence in the new executive.

Mr Delors said yesterday that criticism of his alleged intentions was "based on untruthfulness and lies."

"I have never put forward these proposals, because I do not intend them. On the contrary the meaning of the Community is that small and big countries are heard with the same interest."

Earlier this week, Mr Uffe Ellemann-Jensen, Danish foreign minister, warned him that the widespread rumours were endangering the outcome of the referendum in Denmark and could cost Mr Delors his job.

## European freedom of movement may end at Dover

BRITAIN'S long-simmering dispute with the European Commission over frontier controls is coming to the boil, just in time to embarrass the UK government as it takes over the EC presidency in the second half of this year.

As in so many aspects of Community policy, the issue boils down to a matter of trust. Will Britain trust its partners sufficiently to remove all controls on people and goods entering the UK from the rest of the EC? The short answer at the moment is: no.

The dispute stems from the 1986 Single European Act's commitment to a single market defined, in Article 8a, as "an area without internal frontiers" by the end of 1992.

Britain contends that this freedom of movement only applies to EC citizens, and that, as Mr Douglas Hurd, the UK foreign secretary, stressed this week, "we are justified, indeed have the obligation, to maintain our controls on non-Community citizens".

But, technically, it is impossible to check the passports of non-EC "goats" without also checking the credentials of the EC "sheep".

Last week, the Commission delivered a long-expected legal opinion

## David Buchan reports on Britain's row with its EC partners on border controls

that Article 8a requires an end to all controls, and was confident that, if it had to take Britain to the European Court of Justice, it would win.

Such a legal battle could take a long time. In the meantime, there are pressing and expensive tasks such as changing the infrastructure at EC airports, if there really is to be a EC-wide free travel zone.

The Commission has been so absolutist in its interpretation of Article 8a, because it fears that if frontier controls remain for just one reason - checks on travellers - they can be used as an easy pretext for the return of checks on goods, for fiscal, security, health purposes. In fact, the UK Customs and Excise is busy preparing, like its counterparts elsewhere in

the EC, to move its fiscal checks inland.

Brussels has set aside Ecu400m (£280m) to retrain or re-employ the 250,000 customs agents who will be put out of work. From next year, truck drivers will no longer have to stop at intra-EC border posts (except perhaps on the Danish-German border) to file VAT and excise documents.

There is far less progress in finding alternatives to other border checking activities such as controlling the movement of drugs, explosives, artworks, and hi-tech goods of military potential.

Some problems appear intractable such as how to get rid of the quarantine which the UK and Ireland impose on the import of cats and dogs.

Finding alternative ways of checking drugs, explosives and rabid animals, are essential if Britain is to stop controlling the entry of people from other points in the EC.

However, of even greater concern is the need to improve controls on the EC's periphery. There is growing migratory pressure on the EC, traditionally mainly from north Africa, but now from eastern Europe.

All 12 EC states are, in principle, ready to sign a convention "on the crossing of external frontiers" of the Community. But the convention is held up by an Anglo-Spanish dispute about Gibraltar, with the UK wanting its colony treated as part of EC territory, but Madrid insisting that travellers from the Rock to Spain are crossing an "external" frontier. The Portuguese presidency of the EC is trying to broker a deal.

But this "external" convention seems not to be enough for Britain to drop its "internal" guard.

It would set agreed rules for issuing visas to third-country citizens, for which a common policy is provided in the Maastricht treaty. It would lead to the Twelve exchanging information on undesirable aliens. It would also require each state to impose immigration controls on incoming aircraft, ships, cars and buses, which the other 11 could - but need not - rely on.

The convention contains a British-inspired declaration that other (ie internal) controls can be maintained. The Dublin convention on the treatment of asylum-seekers has also been signed by the Twelve, though only ratified by Denmark and Greece.

Absent from this convention is the trust apparent in the 1990 Schengen treaty setting up a free travel zone between Germany, France, Italy, Spain, Portugal, and the Benelux countries. (Greece now wants to join Schengen.)

This far-reaching pact provides for elaborate co-operation between the eight countries' police and immigration forces. But it has not proved quite the trail-blazing treaty it was intended to be. Only France has ratified it, and it has run into difficulties in the Dutch parliament.

None the less, in Brussels' view, Britain remains the main obstacle to a frontier-free Europe. True, Denmark is dithering about dropping controls because of its passport union with Nordic countries. But this will be eased once they join the EC. Ireland will probably follow the UK lead.

Given Britain's island geography, it is "plain common sense", Mrs Margaret Thatcher, the former UK leader, used to say, for it to keep controls. But if other countries show they can enforce proper controls on their parts of the EC's external rim, it will become plain common sense for British officialdom to abandon Dover.

## Russians to take over N-forces

By Dmitry Vokh in Moscow

THE RUSSIAN government plans to take over at least part of the Commonwealth of Independent States strategic nuclear forces, the deputy head of the CIS general staff, Lieutenant-General Victor Barynkin, said yesterday. He did not specify what proportion, saying this had yet to be negotiated. Gen Barynkin said President Boris Yeltsin had approved the plan last week.

This decision runs counter to a CIS agreement last December under which all former Soviet strategic nuclear forces were to remain under CIS joint command.

Russia also wants to create its own missile early warning system. Gen Barynkin said the existing system could be "fall of holes" once Azerbaijan and Ukraine took over radar stations on their territory.

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## THE EARTH SUMMIT

The Earth summit in Rio de Janeiro aims to bring together more than 160 World leaders to discuss the environmental agenda for the future. On

May 29 1992, the Financial Times will publish a survey entitled The Earth Summit which will examine the prospects for the summit, its scope and likely outcomes. This survey will attract widespread interest amongst the Financial Times business readership world-wide for whom environmental issues continue to be of major importance. 42% of Chief Executives in Europe's top companies ranked the protection of the environments among the top three future developments likely to have greatest impact on their business in the near future. If you want to reach this influential audience, call

Alicia Andrews: on 071 873 3565 or fax 071 873 3062.

Data source: Chief Executives in Europe 1990

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## Delors denial on Brussels powers

By David Gordon in Strasbourg

EUROPEAN Commission President Jacques Delors has denied yesterday that he intended to increase the powers of the Community's executive arm, the Commission, as the preliminary work on the proposed new EC treaty continues.

Mr Delors was reported to have said that the Commission would not attempt to reach the end of the road in the Maastricht treaty negotiations. He said that the Commission would not attempt to reach the end of the road in the Maastricht treaty negotiations. He said that the Commission would not attempt to reach the end of the road in the Maastricht treaty negotiations.

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## Machine tool industry holds EC crisis talks

By Andrew Baxter

LEADERS of Europe's recession-torn machine tool industry are holding crisis talks with the European Commission in an attempt to win agreement on the first EC-wide industrial policy for the sector.

The initiative by the 15bn European sector reflects fears that the recession has seriously damaged the competitiveness of a strategically important industry. Output fell by 8-10 per cent last year, due to the near-total collapse of east European business and a sharp decline in the US and western European markets.

The downturn has exposed the financial weakness of a fragmented industry of 1,500 producers, and raised questions about the survival of several leading companies.

The talks are being spearheaded by Cecimo, the umbrella body for 12 European machine tool associations, which earlier this year submitted to the EC a document outlining the sector's plight and listing a raft of short- and medium-term measures.

Cecimo wants an EC framework programme to revive manufacturing investment by Europe's mechanical engineering sector, through measures such as tax changes, faster depreciation, capital grants and lower interest rates.

Financial and fiscal matters are still the responsibility of EC member states, but Cecimo is keen that individual countries can select from a range of initiatives which will not be blocked by the EC.

Medium-term measures include better financial and fiscal incentives to carry out cross-border mergers, and improved access to EC research and development programmes for the industry's predominantly small and medium-sized companies.

But the organisation also wants, as a priority, the creation of a "European pool" for machine tool control systems, motors and drives to challenge the supremacy of Fanuc, the Japanese producer.

Cecimo's approach to the EC has been encouraged by the Bangemann paper of November 1990 which laid out a new industrial policy strategy for the Community. The group is hoping for an EC communication on the mechanical engineering industry in the second half of this year, in which the problems of the machine tool industry would be addressed.

## Protests grow in Dushanbe

MOSLEM and democratic opposition demonstrators in Tajikistan, describing government concessions as inadequate, demanded the resignation of President Rakhmon Nabiyev yesterday. Renter reports from Dushanbe.

Thousands packed into a central square in the capital Dushanbe, keeping up pressure on Mr Nabiyev after seven weeks of unrest in which more than 100 people have been reported killed in the former Soviet republic bordering China and Afghanistan.

Many voiced discontent with Monday's agreement between opposition leaders and Mr Nabiyev, a former Communist Party boss elected last November, on forming a coalition government and creating an interim legislature until new parliamentary elections are held next December.

The influential Tajik poet Bazar Sabir captured the mood of the people with a rousing speech.

"Most of you are not happy...and I am not happy. Even before the casualties, I called on Nabiyev not only to resign but to leave the republic," he said.



Giscard d'Estaing broke ranks with the Gaullists and advocated a Yes vote

## Divisions ease path in France for EC treaty

By Ian Davidson in Paris

DEEP divisions in the ranks of France's opposition conservative parties yesterday seemed to promise the government a comfortable majority on its bill to revise the French constitution, as the prelude to ratification of the Maastricht Treaty on European Union.

The leadership of the right-wing Gaullist party put forward four amendments to the bill in the hope of being able to present a united front with the centre-right UDF umbrella grouping.

But former President Valéry Giscard d'Estaing, leader of the UDF, swung the prospects for the vote by breaking ranks with his ostensible Gaullist allies, and advocated a Yes vote in Parliament.

Ultimately, almost all of Mr Giscard d'Estaing's party, and all of the Centrists, were likely to vote with the government because they are in favour of European integration in general and of the Maastricht Treaty in particular.

Mr Giscard d'Estaing cut through the Gaullists' procedural manoeuvring, which was set to delay a vote until late last night or today by dissuading himself from two of their four amendments.

He declined to join their opposition to giving residents from other Community countries the right to vote in French local elections. He also dismissed the Gaullist demand that the constitutional revision should assert France's right of veto in the Community, by virtue of the so-called "Luxembourg Compromise".

The Folketing yesterday approved the Maastricht treaty on European Union by 120 votes in favour to 25 against with one abstention. Hilary Barnes reports from Copenhagen. The treaty will be submitted for approval to a popular referendum on June 2. The referendum result will be binding on the Folketing.

Opinion polls indicate that the popular vote will be much closer than the parliamentary vote.

## Greece cuts taxes in fiscal reform package

By Kerin Hope in Athens

THE Greek government yesterday launched a wide-ranging fiscal package intended to boost revenues through broadening the tax base and curbing tax evasion.

The new legislation, tabled in parliament, is also expected to promote growth by streamlining corporation tax, at present hemmed in by complex regulations which serve as a disincentive to investors, finance ministry officials said.

Reduced income tax rates introduced in the bill will at first cause a sharp drop in revenues, estimated at about Dr50bn (€600m) for 1992.

The top income tax rate will fall from 55 to 40 per cent, while the threshold for paying income tax rises to Dr1m, excluding junior civil servants and other white-collar workers. In 1993, the top income tax rate will drop to 30 per cent.

Tax on corporate profits, currently between 42 and 50 per cent, is reduced to a single 35 per cent rate and companies are required to revalue fixed assets every four years.

Stricter penalties for tax evasion include lifting of bank confidentiality, confiscation of professional licences and jail sentences for major offenders.

Greece's most notorious tax evaders are self-employed professionals such as doctors and lawyers who avoid issuing receipts for their services. Under the new system, doctors must keep registers of their patients and lawyers are to be taxed under a co-efficient worked out with their union.

The black economy in Greece is estimated to have grown from 25 to 40 per cent of gross domestic product over the past decade, indicating that the government loses more than Dr400bn in revenues every year.

Hopes of making the fiscal reforms effective rest on a new computer system now being installed, with the capacity to cross-check tax returns nationwide. By mid-1993, all Greek internal revenue offices should be computerised.

## Creditor banks press for Polish debt talks

By Christopher Robinson in Warsaw and Anthony Robinson in London

POLAND'S commercial bank creditors want to start "constructive negotiations as soon as possible" on re-scheduling the country's \$11.8bn bank debt. However, Mr Jeffrey Stockley, head of a working group of the London Club of

official creditors, confirmed in Warsaw yesterday that talks would not resume until the government reached agreement with the IMF.

Poland is seeking a 50 per cent reduction in its commercial bank debt to match the 50 per cent cut in its \$33bn official debt agreed last year with the Paris Club of western governments.

Mr Andrzej Olechowski, acting finance minister, said that final consultations with the IMF would take place next month. He himself resigned last week over a parliamentary vote for higher government spending which puts an IMF deal in doubt.

Officials taking part in the IMF talks said that an agreement with Poland could be completed by the end of July, provided the IMF board accepted a Polish letter of intent. One of them said that a positive outcome depended on the Polish authorities being able to demonstrate their ability to keep the budget deficit below Zl 65,500bn (\$4.7bn) or 5 per cent of GDP.

On Monday Mr Olechowski said that such a deal might be possible if the government could delay spending the extra \$2bn on public sector pay and pensions approved by parliament last week until 1993. Before any agreement can be signed, however, parliament must accept this year's budget in a crucial vote expected within the next fortnight.

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## NEWS: WORLD TRADE

Co-operation produces better results than coercion, says a World Bank report intended to fuel debate at the Earth Summit next month.

# Environment better served by free-trade carrot than protectionist stick



**PUNISHING** poor countries through trade bans is unlikely to help protect the global environment, the World Bank concludes in a report published this month.

While free trade is no panacea, co-operation will produce better results than coercion, it says. Developing countries, in particular, should not be forced to take action they cannot afford, such as stricter environmental legislation. "In the case of worldwide global problems like global warming or in the case of regional problems like acid rain, there is no viable alternative to international co-operation," says Mr Lawrence Summers, vice-president and chief economist, in his foreword to the report on trade and the environment.

The study focuses on the pressure in the developed world for trade bans and other punitive action against countries whose environmental regulation falls below the standards of other countries. Blanket harmonisation of environmental regulation, sought to ensure fair competition between exporters, is inappropriate and runs counter to accepted principles of international trade, it argues.

The report, intended to fuel debate at the Earth Summit in Rio de Janeiro next month, acknowledges that the failure to take proper account of environmental costs has led in

some cases to environmental degradation. It examines six broad themes: how trade and environment policy are linked; whether "dirty" industries migrate in the face of higher environmental standards; whether higher standards hurt competitiveness; whether liberal trade, and the quest for economic growth underpinning it, necessarily results in degradation of the environment; how protectionists have captured environmental issues to aid their cause; and how international trade co-operation, including measures aimed at harmonisation of environmental policies, can help to protect the environment.

Attention should be paid to sustainable development, the use of unexploited natural resources, energy consumption, the possibility of environmental accidents, and threats to the "global commons" including the oceans, the ozone layer and the world's forests, it says. Among its main conclusions, the report says:

- Companies have no environmental grounds on which to demand tariff protection against imports from countries with less rigorous environmental rules. Nor are there good economic grounds, since the cost of meeting environmental standards account for such a small proportion of total costs.
- There is no evidence that "dirty" industries migrate to countries because their environmental standards are lax, and there is scant economic sense in doing so.

**David Dodwell** examines a study on pressure in the developed world for punitive action on environmental grounds

● International harmonisation of environmental standards is not necessarily a sensible aim, and may be used by governments to delay domestic environmental reform. In developing countries where poverty alleviation is a greater priority than environmental protection, different environmental standards may be valid.

● Trade bans, punitive tariffs or other forms of coercion are unlikely to be effective. "Countries coerced into action by threats are unlikely to comply either very thoroughly or for very long, leaving the environmental outcome in doubt," says Mr Summers. "When consumption in the petitioning country is 20 times that of the country asked to bear additional costs for environmental improvement, or when countries are asked to forego the benefits of their natural resources, equity more than economic logic suggests that threats to reduce poor countries' incomes further by trade restrictions are inappropriate."

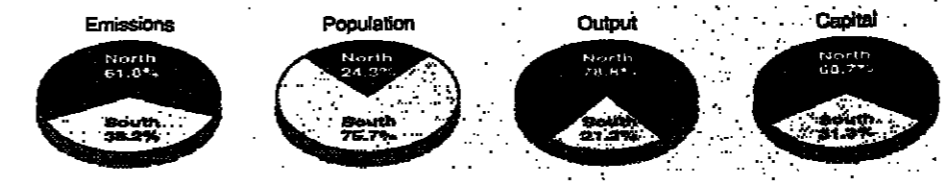
A recurring theme in the report is the "strong preference" governments show for

"direct command and control measures, which come far down in the efficiency hierarchy" when it comes to tackling environmental problems. Governments "have omitted to give adequate consideration to the justification for measures they have adopted, or to the nature of the options available", the report concludes.

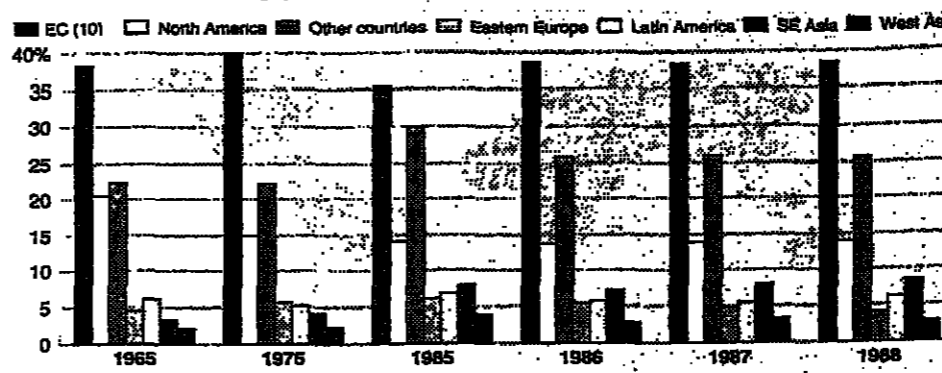
Confirming the findings of a report by the General Agreement on Tariffs and Trade (GATT) published in February, the World Bank accepts that trade measures may be justified as environmental policy "in very narrowly defined circumstances", but that "there is almost always a better way of meeting environmental objectives." It rejects the "deep ecology" view that environmental assets such as rain forests or endangered species have infinite value. From this, it follows that countries have a right to decide what value they give to environmental quality, traded against the need to provide jobs, relieve poverty, provide proper health care and education. "Environmental standards and pollution abatement and control activities will be different among countries, and there is no valid presumption in favour of uniformity or harmonisation," says Mr Patrick Low, the report's editor.

While the report challenges the claim that a failure to harmonise environmental standards will result in "dirty" industries migrating to countries with lax standards, it concedes that the amount of

Share of the world's...



World share in dirty products



"dirty" industry output in developing countries has grown steadily over the past two decades. It suggests, however, that this has more to do with the stage of industrialisation of many developing countries than any other factor.

Studies in Chile and more widely across Latin America also contradict the claims that free trade leads to environmental degradation and that industries migrating to developing countries seek comparative advantage in their lower environmental standards.

"The more open an economy, the more rapidly clean technology is adopted and diffused", it says. It also suggests that migrating companies have imported their technologies with them, rather than exploited lower local environmental standards. Several reasons are given for this: companies have become fearful of liabilities arising in the event of environmental accidents, and are sensitive to the demands of "green" consumers in export markets.

They economise by using common production standards in all plants, wherever they are based, and find it cheaper to start new plants with state-of-

the-art technology rather than face the comparatively expensive prospect of "retrofitting" ageing plant. They also have to anticipate that developing countries will over time demand more stringent environmental standards.

The report attacks the case for protecting industries forced to meet high environmental standards because research shows the costs of pollution abatement and control to be small. Even in the US, which has generally high standards, these costs add up to an average 0.54 per cent of a company's overall costs. Even in the

cement industry, which pays more for pollution control than any other, it accounts for just 3 per cent of costs.

It argues that any attempt in the US to introduce a tax to "level the playing field" would be "strongly suggestive of a protectionist reflex, with little or no environmental justification". It alerts environmentalists, who have often allied with protectionists in trade issues, that this provides a good example of how protectionist interests have no concern for better environmental standards "only for the elimination of competitive disadvantage."

"Trade restrictions are an economically costly means for one country to use in trying to induce another to [take proper account of pollution costs], and they do not guarantee success in terms of the environmental outcome."

The report examines options to compensate developing countries undertaking environmental protection - including cash transfers, debt-for-nature swaps, technology transfers and sanctions for nature. It concludes that only the transfer of clean or pollution-reducing technology is without adverse side effects.

"International Trade and the Environment, edited by Patrick Low. Available from the World Bank. The World Bank's annual World Development Report, to be published next week, is dedicated to a study of environmental issues, and will be examined in the FT on Monday."

## Protectionist countries have become pollution havens

SCANT evidence exists that pollutive industries migrate to countries where environmental standards are lax, the study concludes. Closed, protectionist countries have become "pollution havens", it says, contradicting environmentalist views that economic growth and free trade lead to environmental degradation.

The report shows developing countries have seen rapid growth of pollutive industry, due to the stage of industrialisation these countries are going through, rather than to investment targeted to escape tough environmental rules. Pollutive industry, those that spend heavily on controlling or treating resulting pollutants, is still concentrated in First World countries.

Industrial countries account for three-quarters of trade in the products of "dirty industry", with the EC accounting for 40 per cent. While North America has in the past 25 years cut its share of environmentally dirty goods by one third from 30.5 to 14 per cent, the rapidly industrialising countries of south-east Asia have more than doubled their share from 3.4 to 8.4 per cent. Concentrations of dirty industry are greatest in eastern Europe, where they accounted for more than a quarter of exports. "There is clear evidence of a relative decline in the importance of these products in industrial countries' exports, while increases are observed in eastern Europe,

Latin America and West Asia."

The report traced no evidence of investment decisions influenced by variations in environmental standards. Research in Chile, which has no controls on industrial emissions and is open to trade and foreign investment, shows the opposite: "Openness to foreign investment and absence of barriers to technology imports encourage multinationals to invest in Chile, and ensure domestic producers will have to compete with them. Openness in Chile is associated with, if not contributing to, the opposite of the pollution haven effect." Companion studies of Latin American countries show more open economies end up with "a cleaner set of industries". "Developing countries selling their environment cheaply have little to offer investors, against those offering a cheap, efficient labour force, to take one example."

By contrast, east European protected economies show "the extravagant carelessness with which the environment has been treated there". Less than 5 per cent of Poland's river water is drinkable, with 40 per cent so polluted that it cannot even be used in industry. Czechoslovakia, east Germany and Poland have nitrous oxide emissions twice those of France, Italy or West Germany, with sulphur dioxide emissions 10 times higher.

"Environmental degradation of eastern Europe is mainly explained by political suppression of consumer choice."

Four reasons are given why dirty industry migration is not a matter of environmental concern:

- Scant evidence exists of such migration; costs of compliance with environmental regulations are low as a proportion of total costs, so do not influence location;
- Legal liability and reputation in a company's home market weaken the temptation to cut environmental costs in a world of rising environmental standards; companies anticipate rising environmental standards in developing country markets by introducing state of the art technology in the first place.

To test whether tariffs ought to be used to induce countries to raise environmental standards, the report examines US industry demands for a "pollution tax" on Mexican exports which are subject to laxer environmental regulations. It finds total pollution abatement costs across US industry amount to 0.54 per cent of total costs. The cement industry carries highest costs, at 3 per cent. The report concludes: "It is not obvious that the threat or imposition of trade restrictions will have a positive effect on environmental quality." The US policy would be flawed because it would be "driven by considerations of competitiveness, not environmental quality." That would amount to "bad environmental policy and bad trade policy."

## Tale of the sheep and a grizzly bear

A GRIZZLY bear may be bad news to sheep farmers, but an environmental asset to the wider public. Does a government kill the bear, or compensate farmers for lost sheep? If it kills the bears, are other governments entitled to protest by banning imports of its sheep meat? GATT, which polices world trade, believes countries should have freedom to decide how to resolve their environmental problems, and other countries are wrong to use trade instruments against them if they disagree.

This challenge to the use of extra-territorial sanctions to force "good" environmental practices on other countries has aroused anxiety that a lack of international agreement on environmental standards and practices will make it a "big" in the middle" in trade disputes. The US "dolphin-tuna" controversy was a first, but others are pending, such as Swedish and Swiss bans on imports of chickens raised in cages.

The World Bank provides support for GATT's role: "By promoting the use of more appropriate environmental policies that address the source of a problem directly, GATT is very much 'for the environment.' GATT rules can protect [developing countries] from new forms of protectionism under the guise of environmental policy, reinforce the respect of sovereignty in trade relations, and shift emphasis from the use of trade sanctions to negotiations. The rule-based multilateral system protects the interests of small countries against power-based unilateral policies by large countries."

Other ways of pressing countries to change environmental policies could include product labelling and financial or technological transfers: "Trade forums seem to be the wrong places to address environmental issues. The source of the problems is not in trade, but in the need to [take proper account of] environmental costs in prices, to address bad policies, and clarify property rights."

## Hardwood curbs could deplete forests

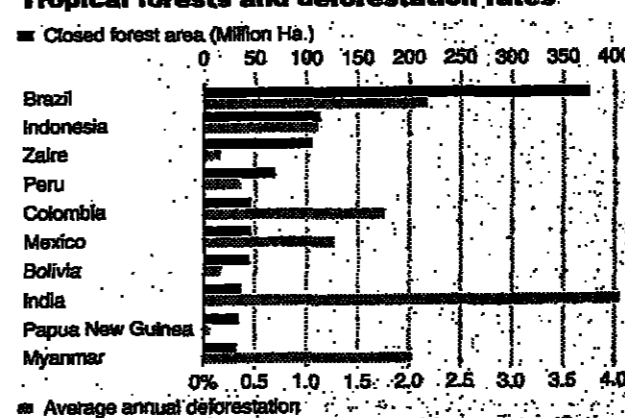
CURBS on world trade in tropical hardwood could result in more forest depletion rather than conservation, Mr Carlos Alberto Primo Braga, economist in the World Bank's International Trade Division, says.

In a study of how trade policies have affected forest use in Brazil and Indonesia, he argues: "Use of export restrictions visited additional environmental degradation on Indonesia's wet tropical forest than a proper resource management programme involving a tax on all timber at the logging stage would have done." The findings challenge environmentalists who have fought for a ban on trade as a main plank in their push to protect the world's forests.

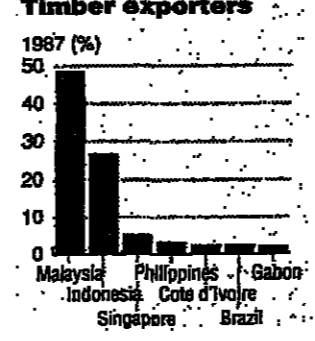
Mr Primo Braga sets out the rate forests are being lost and shares environmentalists' concern over the plight of tropical wet forests. Forest depletion has already significantly affected the economy of some developing countries, like the Philippines, Nigeria and Ivory Coast, he notes. If the pace of deforestation continues unchecked through the 1990s, the number of net exporters of forest products among developing countries would fall from 33 to 10 by the year 2000.

World Bank studies show that about 60 per cent of depletion is due not to trade but farming and cattle ranching, with the balance split between road building, urbanisation, fuelwood and logging. "Activities geared to the domestic market are the main players in the deforestation process." His case is vividly illustrated

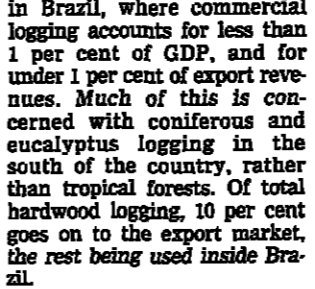
Tropical forests and deforestation rates



Timber exporters



Timber importers



in Brazil, where commercial logging accounts for less than 1 per cent of GDP, and for under 1 per cent of export revenues. Much of this is concerned with coniferous and eucalyptus logging in the south of the country, rather than tropical forests. Of total hardwood logging, 10 per cent goes on to the export market, the rest being used inside Brazil.

As a result, trade measures against Brazil's exports are useless. They have no influence on the deforestation process, and they hurt environmentalists into a false sense that progress is being made. Instead, they should be focusing on the core problems: poverty, development projects, migration, and government subsidies for logging and cattle ranching. The error of trying

to use trade measures to slow deforestation is shown differently in Indonesia, where hardwood products account for 14 per cent of export earnings, with over 40 per cent of production exported.

Indonesia's outward orientation is not just due to government policies, Mr Primo Braga argues. Indonesian hardwood is more competitively priced, since its forests have higher densities of commercially valuable trees; the light colours of Asian hardwoods are preferred by consumers in developed countries; access to forests is easier; and it is closer to the world's main importer, Japan. Indonesia introduced trade curbs first on logs, then sawn wood, under a strategy of encouraging higher value-added production in the country. The result: intensified depletion of forests, since local processors using inefficient machinery need more logs for every unit of output than counterparts in Japan or Canada.

"If Indonesian sawmills and plywood were operating at the world technological frontier, the same production of sawn wood and plywood achieved in the second half of the 1980s could be reached with an annual economy of 3.3m cu m of logs." This would have cut annual log harvests by 10 per cent. A ban on trade in tropical hardwood would tend to depress its price. An import ban would "assign a lower value to forests, and (encourage) less careful management of the resource, providing greater incentives to convert forest land to other uses."



## European groups urge Japan to improve investment climate

By Robert Thomson in Tokyo

JAPAN must improve direct investment conditions for foreign companies or face "increasingly strong" political pressure to redress the present imbalance in investment flows, according to a paper produced for European companies.

Japanese investment in Europe had been more than 20 times larger than European investment in Japan in the past decade, the European Business Community (EBC), a Tokyo-based advisory committee to the EC, said in a paper. Tokyo had to ensure European companies had equal access to the Japanese market.

"If such opportunities are not created, this problem,

which today has mostly commercial and economic dimensions, will develop an increasingly strong political dimension as well," the EBC said.

The paper focuses on the manufacturing and distribution sectors. It came as the Japan External Trade Organisation (Jetro) released a report suggesting the pace of Japanese manufacturing expansion in Europe is slowing.

At the end of January, 721 manufacturing companies had operations in Europe, an increase of 69 over the year, against an increase of 132 the previous year. About 21 per cent of those companies produced all of their components in Europe, up from 15 per cent

a year earlier, while 34 per cent had Europeans as chief executives, against 31.6 per cent in January 1991.

European companies listed five conditions hindering investment in Japan: high cost of land; a relatively long wait for returns on investment; high corporate taxes; problems of attracting well-qualified Japanese staff; and "extreme difficulty" in acquiring Japanese companies.

EBC officials said Japanese mergers and acquisitions abroad last year totalled 294, while only 18 foreign transactions took place in Japan. There were no legal obstacles to acquisitions but the environment "was not conducive to foreign investments".

## Ericsson in mobile phone deal

ERICSSON, the Swedish telecoms group, said yesterday it has acquired a SKR700m (£66.6m) order from Tokyo Digital Phone Company to supply, install and initiate a cellular mobile phone system for the Tokyo metropolitan area. Robert Taylor reports from Stockholm.

The contract will initially cover 150,000 subscribers when in operation in July 1994. Ericsson said a contract for further extensions will be negotiated with Tokyo Digital Phone. Talks had already begun to build networks in other parts of Japan. Japan now had 1.25m cellular phone subscribers, expected to reach 13m by the year 2000.

## Accountancy firms to expand China ventures

By Andrew Jack

ARTHUR ANDERSEN and KPMG Peat Marwick, the accountancy firms, plan to expand their joint venture networks in China by opening offices in at least two other cities within the next year. Both firms are considering developing operations in Shanghai and Guangzhou to complement their first joint

ventures approved by the Chinese authorities last month. Mr Eoghan McMillan, Arthur Andersen managing partner for Hong Kong and China, said the venture was considering opening branches in Shanghai and Guangzhou, possibly also in Shenzhen. Peat Marwick signed documents formally approving a joint venture with a firm of certified public accountants in Beijing to be

called KPMG Peat Marwick Huoshen on April 25 after two years' discussions with the Chinese. Arthur Andersen finalised a similar deal two days later, to be called Arthur Andersen Hua Qiang. The ventures have allowed foreign accountants to certify statutory audits on companies operating in China for the first time. Certification is required for tax returns and enterprises

joining the Chinese stock market.

Mr McMillan said Arthur Andersen could be employing more than 300 people in China within three years. Under the agreement, any profits within five years will be reinvested rather than distributed to partners. Both firms already have consultancy arms in Shanghai and Guangzhou which will continue to operate.

## Schindler seeks to revise terms of Jardine deal

By Ian Rodger in Lucerne

SCHINDLER, the world's second biggest lifts and escalators division, said the terms of the joint ventures, set up in 1974 and 1980, now appeared unfair to the Swiss group, and it was determined to change them this year.

Mr Bruno Dönni, chief executive of Schindler's lift and escalator division, said the terms of the joint ventures, set up in 1974 and 1980, now appeared unfair to the Swiss group, and it was determined to change them this year. "Our target is to take over

the companies for ourselves, but we are open to leave a minority position for Jardine," he said. Mr Dönni said Jardine was not eager to change, but Schindler was trying to explain its position. Jardine has a 60 per cent

stake in Jardine-Schindler, which sells and services Schindler products in Korea, Taiwan and countries in the ASEAN trade grouping. It also has minor stakes in Schindler ventures in China. Annual sales of these companies are about SFR300m (£115m).

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## UK and Vietnam sign deal on refugees' return

By Simon Davies  
in Hong Kong

THE GOVERNMENTS of Britain and Vietnam yesterday signed an end to Hong Kong's 13-year struggle to cope with an inflow of Vietnamese boat people, by agreeing to the forcible repatriation of all those found not to be political refugees.

Mr Alistair Asprey, Hong Kong's secretary for security, estimated the overcrowded camps which currently house about 56,000 illegal Vietnamese immigrants could be emptied in three years.

The agreement, signed in Hanoi yesterday morning, is the final stage in the October 29 statement of understanding between Britain and Vietnam. This permitted the forcible return of all new non-refugees and of so-called double-backers who had returned to Hong Kong after being voluntarily repatriated to Vietnam.

Lord Wilson, Hong Kong's outgoing governor, welcomed the agreement. "What we really want is that as many people as possible should volunteer to go back to their homes and I hope that this new stage in the process of reaching agreement with Vietnam will encourage that," he said.

The news was broken to the inmates of the 10 detention centres in Hong Kong last night, but there were no immediate outbreaks of violence.

A concern remains that the government will have to use force in the repatriation of some boat people who have waited in appalling conditions for almost four years rather than return to what they claim

will be inevitable persecution. Mr Asprey would only say that everyone would have the opportunity to return under conditions of "order, safety and dignity".

There has already been a significant fall in the number of boat people arriving in Hong Kong since the October accord. This year there have been 80,000 arrivals, compared with 3,920 in the corresponding period in 1991.

This is thought to result from the October agreement and to a reduction in the amount payable to those who volunteered to return. Mr Asprey said he did not consider it was a reaction to the riots that killed 21 Vietnamese in a refugee camp in February.

He said the agreement would be likely to encourage a rapid increase in the number of Vietnamese volunteering to return.

At present there are 22,466 boat people who have failed the screening process and will be forced to return to Vietnam. There are a further 29,562 which have yet to go through the screening process, while there are only 3,484 designated refugees remaining.

"One of the main objectives is to make it clear there is no future for them in wasting their lives in the camps, in the forlorn hope that they will get access to resettlement. That will not happen," he said.

Mr Asprey emphasised that neither Hong Kong nor Britain had agreed to any financial assistance connected with the agreement with Vietnam. However, the European Community has recently started a \$120m programme to aid re-integration of returnees.

## Australia to reduce immigrant numbers

By Kevin Brown in Sydney

AUSTRALIA, one of the world's most popular destinations for European and Asian emigrants, yesterday announced plans to cut immigration by 27 per cent next year to about 80,000 people.

Mr Gerry Hand, the immigration minister, said Australia would also require more skills and a higher level of competence in English from applicants other than refugees and close relatives of earlier migrants.

The changes follow an anguished debate over the historically high level of immigration in the wake of an 18 month recession which has increased unemployment to 10.4 per cent.

Immigrant organisations argue that high immigration benefits Australia by increasing economic activity. However, the government has accepted trade union arguments that immigration has worsened unemployment during the recession.

Mr Hand said the level of immigration for future years would be decided in the light of "national economic and social objectives". He said the intake was likely to average 80,000 for several years.

The cut was welcomed by Senator Peter Walsh, a prominent campaigner against high immigration, who urged a further cut to a maximum of 60,000 people in 1993-94.

Immigrant organisations said the increased focus on English language skills was discriminatory, and would discourage applications from talented migrants from non-English-speaking countries.



Fidel Ramos, closely trailing Miriam Defensor-Santiago in the elections, arrives at his headquarters yesterday

## Accusations fly after Philippines poll

By Victor Mallet in Manila and Jose Galang in Tarlac

THE PAINFUL slowness of vote-counting following this week's Philippine elections prompted a flurry of accusations of cheating yesterday from politicians who appeared to be losing.

Police defused three bombs aimed at disrupting electricity supplies around the capital Manila and which may have been intended to disrupt the counting of ballots from the elections on Monday. Earlier, bombs had caused slight damage to electricity installations on Monday night.

Right-wing military rebels of

the Reformed Armed Forces Movement (RAM) issued a statement to the media accusing the incumbent administration of President Corason Aquino of organising the bombs to manipulate election results in favour of her preferred candidate, Mr Fidel Ramos, former defence chief.

"Let this serve as a warning that our forces beginning at 8pm today will be in a state of readiness to move against the Aquino government should it persist to manipulate election results by any means," said the RAM statement, which was dated May 13.

Mr Ramos stood by Mrs Aquino through six coup

attempts. Three were led by RAM, including one in December 1989 which frightened potential foreign investors and nearly toppled the government.

Unofficial counts last night of a fraction of the 27m votes cast gave the lead in the presidential race to Mrs Miriam Defensor-Santiago, a sharp-tongued lawyer who has campaigned against corruption.

Close behind were Mr Ramos and Mr Eduardo Cojuangco, Mrs Aquino's estranged cousin and a wealthy associate of the late dictator Ferdinand Marcos.

Mrs Imelda Marcos, widow of Ferdinand and herself a candi-

date, asked for a halt to unofficial vote-counting after it became clear she was trailing in the presidential race and said it was possible the media were being "used" by "dubious elements".

Some officials have expressed fears that a wave of protests from losing candidates could create a crisis akin to that in 1986, when Mrs Aquino ousted Mr Marcos in an uprising sparked by protests against massive election fraud.

Mrs Santiago said yesterday that she was jubilant at her early lead. If she won, she said, it would deal a blow to the Philippines' oligarchic political system based on influential families.

## Bilateral accords 'vital for Mideast progress'

By David Buchan in Brussels

A POLITICAL breakthrough in bilateral negotiations with Israel is vital for a wider discussion on the Middle East economy to make progress, a Palestinian delegation said yesterday after a two-day session of the 35-nation working party on regional co-operation.

Professor Youssef Sayigh, the Beirut-based leader of the Palestinian delegation, criticised Israel for not attending the meeting because Palestinian representation was not confined to those from the West Bank and Gaza. The EC, which chaired the working party, made the same criticism to Mr David Levy, Israel's foreign minister.

The Brussels meeting was also boycotted by Syria and Lebanon, which are first demanding progress in their bilateral talks with Israel. Another Palestinian delegate, Mr Khalil Hindi said he understood the attitude of the Arab absentee countries, but "the pros of attending outweigh the cons". All participants agreed that the multilateral discussions on regional co-operation would only blossom if and when there was a political breakthrough in bilateral Arab-Israeli talks.

Mr Samir Hulaileh, a Jerusalem economist, admitted Palestinian disorganisation was partly to blame for not taking more advantage of the EC scheme to promote Palestinian fruit and vegetable exports to the Community. Israel was also frustrating such exports with systematic searches of Palestinian farm trucks.

## Indian MPs angry over US ban on Russian rocket deal

By K K Sharma in New Delhi

MEMBERS of the Indian parliament strongly attacked the US yesterday over a ban on exports to the Indian Space Research Organisation (ISRO) announced in Washington.

Mrs Margaret Alva, the minister for public grievances, assured parliament that the government would do everything "to protect national hon-

our, dignity and choice" in face of the US ban on trade and technological dealings with ISRO. She said the government "would respond in an appropriate way".

The Bush administration's action, apparently in a public display of its resolve to control missile proliferation, was taken in order to compel ISRO and Russia's Glavkosmos to terminate a \$250m (£141m) contract to

transfer rocket technology to India.

The move follows a recent improvement in US-India relations, as shown by the Bush administration's support for an International Monetary Fund loan to India, an agreement to hold joint naval exercises, and India's recognition of Israel.

MPs were alarmed that the move against ISRO is the second time Washington has acted against India

recently. Less than a fortnight ago it withdrew preferential duties on Indian pharmaceuticals because of India's failure to protect US patents.

The Indian government claims the programme is meant to improve communications and weather forecasting and is entirely peaceful. India chose Russian rocket technology after all western countries had turned it down on the

grounds that it would improve India's missile launch capability. India has refused to sign the non-proliferation treaty, arguing that it discriminates in favour of existing nuclear powers.

The Russians were proposing to supply a Missile Technology Control Regime class system capable of carrying a 500kg payload to a minimum distance of 300km.

## The bamboozle that burst the Bombay bubble

David Housego and R.C. Murthy on the scandal that threatens to turn a stock market slide into a crash

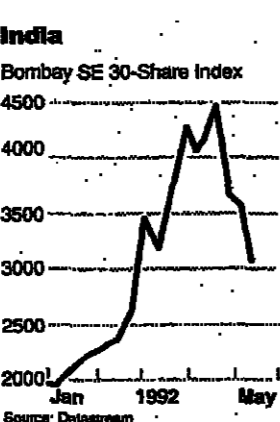
Like any bubble the Bombay stock market boom had to burst one day. But as the Central Bureau of Investigation launched an inquiry into what seems to be India's worst-ever financial scandal, the fears are that a can of worms could be opened which will turn the market's two-week slide into a crash.

After the Bombay Stock Exchange index tumbled yesterday a further 10 per cent to 3,086, the most sanguine expectation was that the market would bottom out at 2,500 - or 43 per cent down on its peak in April.

The second concern is that both the extent of the abuses and the market's fall could deal a savage blow to the government's efforts to develop the fledgling capital market as an instrument to tap public savings for both private sector and public sector investment.

One of the immediate results could be that fresh public issues will be more difficult to launch or could be postponed. The market had been expecting Rs10bn (\$200m) of new issues - including a big issue from the Grasim (Aditya Birla) group to finance new refinery at Mangalore in southern India - in the coming month.

Reliance, the petrochemicals group had also been hoping to raise \$100m in a Euro-issue at a tentative price of \$10 a share. But this will be much trickier with Reliance's own share



price dropping yesterday to Rs260 on the Bombay market.

Faced with disarray not only on the stock market, but in the bond and money markets, the government's hope in calling in the CBI is of a surgical strike to remove the offenders and to clean up the market. It would welcome a fall in the index - which at its peak had been trading at unrealistically high average price-earnings ratios of more than 45 - but wants to prevent a disorderly tumble. A revival of private sector investment through capital market funding is crucial to the government's strategy for restructuring industry and boosting exports.

After a dizzy tripping of prices over the last year in response to the government's liberalisation plans, the market has dived 30 per cent over the

last fortnight. This followed the disclosure that large funds - as much as Rs30bn - had been illegally syphoned out of the interbank market in government securities to fuel the share price boom.

The difficulty in limiting the damage is that those who have so far been implicated in the scandal are no minor players. Mr Harshad Mehta, the first-generation Bombay broker who had to repay Rs6.3bn to the State Bank of India, the largest state-owned commercial bank, because of irregular securities trading, was more than anyone the architect of the bull run this year. He proclaimed not only the dramatic rise in the market but publicly announced which shares he was backing. Those he chose have since taken the hardest tumble with Associated Cement (ACC) dropping a further Rs1,100 on Monday to Rs4,400 after reaching a peak of Rs10,500 on April 2.

Mr M J Pherwani, who has resigned as head of the National Housing Bank, headed the Unit Trust of India, a state-owned - and the country's largest - mutual fund for 10 years. He was also the chairman of a government-appointed committee that recently recommended a revamped national stock exchange. As chairman of UTL, he was a lead player in the bull market of the late 1980s. He was forced to step down from

that position because of his allegedly links to the Ambani family who control Reliance and who were accused of market manipulation.

Both Mr Mehta and Mr Pherwani are well connected both in the Bombay financial market and among politicians and the top civil servants in Delhi. Other senior banking executives including Mr K. Mangabandhu, chairman of the Calcutta-based United Commercial Bank, and Mr C. L. Khemani, deputy managing director of the State Bank of India were asked to take immediate leave.

The diversion of funds was possible because of the chaotic securities market in which bankers receipts are traded. Bankers receipts are promissory notes issued by banks to each other in trading on government bonds. The Reserve Bank of India (the central bank), which acts as a bond depository for banks, had fallen badly behind in registering security transfers because this part of its operations is still not computerised. "There was a systems failure," Dr Manmohan Singh, the finance minister, told parliament on Monday.

But the inadequate supervision that is now seen to have characterised the bond market is also true of the stock market where insider trading and the rigging of prices is known to flourish. "Entry, holding and exit are all hazards in this mar-

ket," Mr G V Ramakrishna, the chairman of the Securities and Exchange Board of India said six months ago. Not much has changed.

The diversion of funds from the bankers receipt market occurred through the issue of false paper and the illegal use of securities as collateral to raise fresh funds. The abuses were due to both the bull market of the last year and to the archaic trading system. Brokers seemed to have won the confidence or connivance of bankers dealing in bonds.

The suspicion of fraud surfaced in mid-April but came to public notice a fortnight later as commercial banks started to reconcile accounts for the accounting year ending March. It was at this point that the State Bank of India realised it was owed Rs4.5bn by Mr Mehta and forced him to settle.

A fall-out from this Mr Mehta was unable to meet other obligations - including payments to the National Housing Bank. Mr Pherwani attributes National Housing Bank's inability to deliver on cash or security payments of Rs3.4bn to Canara Bank on Mr Mehta defaulting on his obligations to him.

These transactions occurred within the framework of the bankers receipt - a normally narrow interbank market trading in government and public sector bonds. Banks' invest-

ment in the market none the less exceeds Rs1,400bn.

Until recently the market has focused on banks purchasing some Rs10bn a month of bonds to meet statutory liquidity requirements set by the Reserve Bank.

But the market became active in February anticipating a fall in bond prices, especially long-dated securities, on reports of a possible interest rate rise on new bonds the government was to issue in March. Banks entered futures swap deals promising deliveries after the coupon rise. This occurred on March 17 with long-dated bonds rising 0.5 per cent to 12.5 per cent. Some banks had already sold short.

Bond market players used the bankers receipt to register transactions which require immediate cash payment but leave delivery of the security to later.

With the Reserve Bank unable to police a fast expanding market because its own registering of transactions fell behind, the opportunities and temptation for fraud grew.

In the coming days the government will use the weight of the state-owned institutions to prevent an uncontrolled fall in the market - hoping that foreign portfolio investment will emerge to provide a safety net.

However small investors will already have been frightened by the market's sharp descent and could go on selling.

## PAKISTANI BUDGET Reduced fiscal deficit sought

By Farhan Bokhari in Islamabad

THE Pakistani government will unveil its annual budget tomorrow amid widespread expectations of measures to narrow a PRs72bn (£1.61bn) budgetary deficit. These are expected to include cost-cutting efforts as well as possible tax rises.

The deficit, estimated at 6.1 per cent of gross domestic product, has broken an earlier target ceiling of 4.8 per cent. It is regarded as a big pressure on the economy at a time when Pakistan is trying to encourage large-scale privatisation and deregulation.

At the same time, though, the government yesterday claimed that the annual growth rate for 1991-93 has risen to 6.4 per cent, up from 5.6 per cent a year earlier. According to Pakistan's official economic survey, announced ahead of the budget, the manufacturing sector registered the largest growth rate of 7.7 per cent followed by 6.4 per cent in agriculture.

The government is also expected to take credit for a 25 per cent increase in fresh private investment and a 13 per cent increase in exports. Inflation is down to 9.5 per cent from 12.5 per cent a year ago, the government says. The country's foreign exchange reserves stand at some \$650m (\$382m), up from \$300m a year ago.

However, failure to meet the earlier deficit target is attributed to an adverse international economic situation and lower than expected response in the privatisation programme which is eventually expected to raise up to PRs250m.

According to the economic survey, the current account deficit during 1991-92 is likely to end up higher than the

\$2.2bn last year. This has occurred because of a failure to meet an export growth target of 20 per cent, and a rise in imports by 10.5 per cent as opposed to an earlier projection of 2.5 per cent.

A drop in international cotton prices and yarn has also affected export earnings. Remittances from overseas Pakistani workers have also fallen. But the current account deficit is expected to be made up in part by deposits in foreign currency accounts at Pakistani banks, allowed last year under government liberalisation measures.

Under the privatisation programme, the government has partly sold 50 public sector factories with transfer of management to private owners, as opposed to an earlier target of 100. The programme has raised PRs10bn through these partial sales while another PRs15bn is expected to be raised through future sale of more shares in these factories.

Among other economic constraints, the government is unlikely to cut the large defence budget, expected to stand at PRs76.9bn. Some of Pakistan's foreign aid donors have expressed concern over defence expenditures, regarding this as an area where cuts would reduce the deficit. But resistance from the politically influential army together with continued tensions with India over Kashmir and instability in Afghanistan have prevented such reductions, officials say.

Another PRs79bn is expected to go towards debt servicing, where Pakistan's total external and internal debt stands at approximately PRs500bn. Last week Mr Nawaz Sharif, the prime minister, said the country has accumulated a large debt burden, making it the biggest obstacle in the way of balancing the budget.

## China announces special economic zone for Lhasa

CHINA is planning to set up a special economic zone in Lhasa, the troubled capital of Tibet, Reuters reports from Beijing.

The zone will imitate those operating in China's flourishing coastal regions, the official China Daily said yesterday.

It quoted Tibet's vice governor Gyamtsos as saying lack of open-mindedness had impeded the region's development in the past.

Tibet has been rocked by sporadic riots since Buddhist monks demonstrated against Chinese rule in late 1987, prompting police to open fire

on protesters. The region's exiled spiritual leader, the Dalai Lama, says more than 1m Tibetans have been killed since China took control of his country, now called the Tibet Autonomous Region, in 1950.

China Daily said Tibet's local government is drawing up preferential investment policies for the Lhasa special economic zone, including tax breaks and low land-use fees. The isolated region plans to open several new border trading ports. Currently Tibet's sole air link is with Chengdu, in neighbouring Sichuan province.

## Cosmetic surgery cuts a dash with China's new face

Yvonne Preston on how a change in attitudes in the People's Republic lets women alter their looks

MORE Chinese want wider eyes and bigger noses and are subjecting themselves to cosmetic surgery. Surgeons performing the operations, existing part of the upper eyelid and inserting a silicon strip in the nose, say the aim is not to look more western.

But to many young Chinese western standards of beauty are part of a revolution in style which has come with a taste for hamburgers and Kentucky Fried Chicken, rock and roll, imported designer sunglasses and jeans.

At Shanghai's 9th People's Hospital 2,000 cosmetic surgery operations were performed last year. The hospital has a waiting list of another 2,000

and there were an estimated further 1,000 operations in other Shanghai hospitals, a tiny number in a city of nearly 14m people, but growing.

Most are for eye rounding and nose augmentation, but the hospital's plastic surgery department also offers face lifts, stomach tucks, breast enlargement and liposuction, sucking surplus fat from the body.

Patients are overwhelmingly female and local. Lured by the low cost more are coming from Hong Kong, Macao and south east Asia. For around \$11 a local patient can have both eyes widened. A nose costs \$14. Overseas Chinese and Hong Kong compatriots pay 10 times as much, but the price is still attractive. Professor Wei Wang, direc-

tor of the plastic surgery department, expects to put it up to \$60 by the end of this year.

In the 1950s cosmetic surgery was forbidden by the government. In the cultural revolution self-beautification was bourgeois, decadent and dangerous. "We just asked Deng Xiaoping if it was alright to go ahead," said Professor Wei with a chuckle. Since 1982 the department's surgeons have performed 500 face lifts.

Cosmetic surgery was approved after the fall of the gang of four, according to Professor Guan Wen Xiang, head of the hospital's research institute into plastic and reconstructive surgery.

Standards of beauty change in

China as everywhere else. In the Tang dynasty fat was fashionable. For centuries tiny feet were seen as beautiful, many women being crippled by the custom of foot binding. The westerner has long been mocked as Big Nose but Chinese fashion now dictates that the small, flat Chinese nose is enlarged with silicon - "but not like yours", Professor Guan added lastly.

In the shapeless 1970s curves were taboo and the Chinese female figure in its Mao jacket looked little different from the Chinese male. Women such as Wang Ling, sitting on her bed at the 9th People's Hospital after having her breasts enlarged with silicon implants, are now embarrassed by

their lack of curves. "My husband is a businessman and he wanted satisfaction," she said. "He wanted me to look good socially."

In the bed opposite Lu Feng Hua, 40, is about to spend \$50 on a face lift. All the way from Inner Mongolia where she practices traditional Chinese medicine, her tight smooth skin shows a few laugh lines at the eyes and frown lines across her forehead, but nothing to warrant a face lift.

Of 8,000 patients seen last year by the plastic surgery department, 35 per cent were about "making people look more beautiful and younger than they are," as Professor Guan puts it. The rest were seen for disfigurement by burns or congenital deformity.

# California riots focus minds on welfare reform

ON the Friday morning when the burning and looting in Los Angeles stopped, thousands of poor residents of the city's South-Central district had a more pressing need than protesting. They were standing in long lines waiting to collect their weekly welfare checks at the few post offices still operating in the riot-stricken area.

The queues demonstrated the dependency on social benefits of large portions of the population in the economically depressed inner city. Yet Los Angeles' 1.3m welfare recipients, and 2.3m throughout California, now face the possibility of swingeing cuts in payments.

Mr Pete Wilson, California's Republican governor, plans to place proposals for welfare reform on the state ballot in November when he will ask voters to approve an immediate 10 per cent cut in welfare benefits.

After six months, payments would be reduced by an additional 15 per cent to families that include an able-bodied adult.

The governor says his proposed Taxpayers Protection Act is designed to "encourage personal responsibility and independence while discouraging welfare dependency," which he believes has contributed to the breakdown of social values he recently linked to violence in Los Angeles.

"Generous" welfare payments have become a disincentive to work, he maintains. A person working full time on a minimum wage may be little better off than another on welfare under the current system, although both must struggle to make ends meet.

The governor's initiative would allow welfare recipients to earn more before payments are withdrawn. It would also create a new \$40m (\$25.5m) job training scheme and a programme designed to encourage teenagers to stay in school.

However, the primary thrust of the reform is directed towards the growing problem of single, unsupported mothers who represent 87 per cent of the state's welfare case load.

Only 6 per cent of single-parent families that go on public assistance do so because the parent becomes unemployed, according to state statistics. "The overwhelming majority go on welfare because of divorce or separation from the income-earning spouse, or because a non-working single woman gives birth to a child,"

## President will veto any bill with compensatory tax increases

### Bush draws up plan for inner cities

By Jurek Martin in Washington

PRESIDENT George Bush yesterday announced a six-point \$3bn-plus (\$1.6bn) programme to relieve conditions in America's inner cities, but said he would veto any bill that included a compensatory tax increase.

Speaking before a meeting of congressional leaders, Mr Bush was unable to put a sum on the cost of his proposals, which appeared mostly an amalgam of long-standing administration policies. Some exist in pilot form, some may be implemented by bureaucratic fiat and some require new legislation, but none had been a priority before the Los Angeles riots two weeks ago.

The six points are:  
● Expanding the Weed and Seed programme, designed to increase law enforcement and targeted social efforts in high-crime areas.  
● Expanding home ownership for those in public housing.  
● The creation of federal enterprise zones.  
● Encouraging greater choice in public education.



George Bush gestures while recounting yesterday a story about violent crime

● Allowing those on welfare to have savings of up to \$10,000, 10 times the current limit, before becoming ineligible for welfare support.  
● Job training, specifically the expansion of a youth apprenticeship scheme.  
● Later, White House officials, while conceding the imprudence of some of their hurriedly compiled sums, gave a rough cost breakdown.  
The enterprise zone bill, consisting of tax breaks for inner-city investors, might come to \$1.5bn; home ownership provisions about \$1bn, up from \$381m in the current budget; \$500m for the Weed and Seed programme, now only in pilot form; and nearly \$700m for job training.

# US court rejects challenge over unitary taxation

By Louise Kehoe in San Francisco

CALIFORNIA'S supreme court has rejected a challenge to the state's "unitary taxation" system, in a decision that could cost multinational companies with operations in the state about \$782m (\$447m) in disputed tax payments.

British, Japanese and other foreign companies have been fighting California's unitary tax for a decade. The case decided by the supreme court was brought by Barclays Bank of the UK in 1984, and challenged the constitutionality of the tax assessment method.

Unitary tax is calculated according to a formula that takes into account a company's worldwide earnings and taxes a portion of them according to the percentage of activity in the state. A company that has 10 per cent of its world sales, property and payroll in California, for example, would be taxed on 10 per cent of its global profits, even if the California operation made no profit.

administration as well as by foreign governments, including the UK - that the tax method interferes with the US federal government's ability to conduct foreign policy.

While acknowledging that four US presidents have opposed state unitary taxes, the California court held that Congress, which holds power over foreign commerce, has not opposed the tax.

The law "does not give executive [branch] officials carte blanche to declare state tax methods null when they irritate our trading partners," Justice Armand Arabian wrote in a unanimous decision.

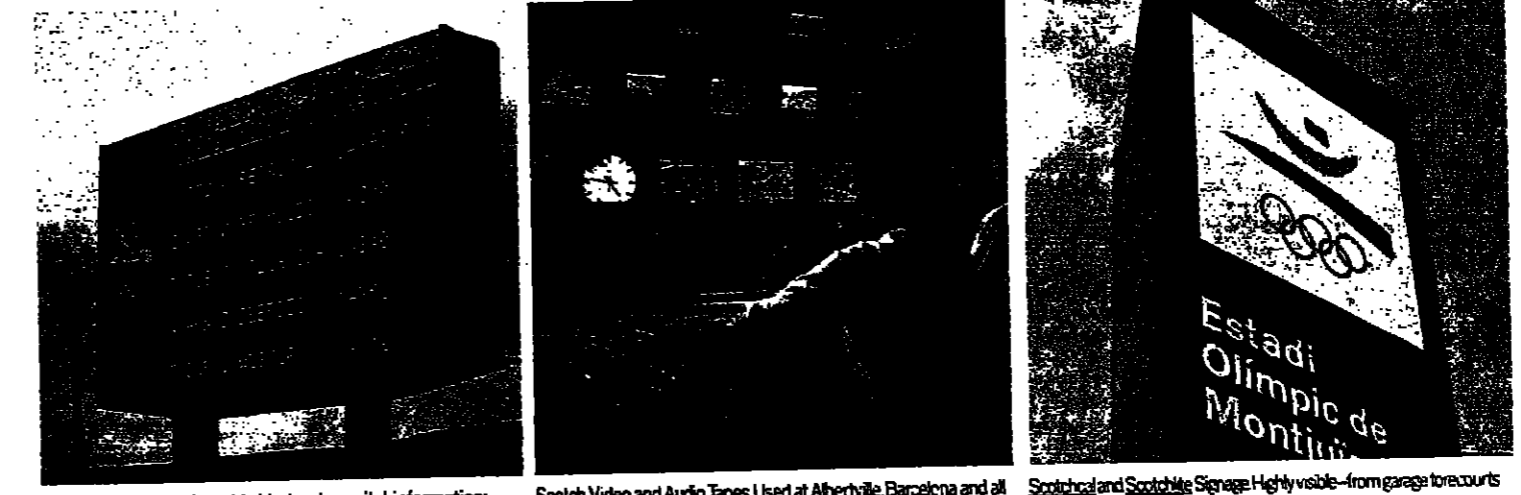
The state court referred back to the state appeals court the relatively minor issue of whether calculating unitary tax places an unfair burden on foreign multinationals.

David Barshad adds: Barclays said in London last night it was disappointed but not surprised by the Californian judgment. The bank, which had hoped to secure a tax refund of about \$30m, plans to appeal to the US Supreme Court in a last-ditch effort to overturn the judgment.

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## Deals set up trade in pollution permits

By Barbara Durr in Chicago

THE first US deals to trade pollution rights were announced yesterday when the federally-owned Tennessee Valley Authority said it had agreed to buy allowances to emit 10,000 tons of sulphur dioxide, a key cause of acid rain, from privately-owned Wisconsin Power & Light.

The Wisconsin utility, based in Madison, also said it sold allowances to Duquesne Light of Pittsburgh for emissions of between 15,000 and 25,000 tons.

The exact terms of the sales were not disclosed but the price of each allowance was between \$250 and \$400 (\$140 and \$223), an official said.

The deals are, in essence, forward contracts on allowances that will be issued next year by the Environmental Protection Agency as part of the implementation of the 1990 Clean Air Act.

The act requires utilities to cut their sulphur dioxide emissions in half by 2000, or from a national total of 19m tons to 9m tons. The first deadline for partial compliance is in 1995.

To help ease the high costs of converting to cleaner technologies, the US government has created a system under which "dirtier" utility companies can buy allowances for sulphur dioxide emissions from "cleaner" companies that have exceeded federal standards.

The allowances have been allocated, but will not be in the hands of utilities until an auction in March 1993.

Mr Erroll Davis, president of Wisconsin Power & Light, said the transactions "clearly demonstrate that a market-based approach can be an effective way to address environmental problems". There is, however, scepticism over how well such a market can work, as state and locally-controlled utilities have been slow to set clear policies for trading allowances.

The Chicago Board of Trade, the world's biggest futures market, plans to begin trading futures contracts on the allowances, dubbed pollution futures.

## Producer prices up 0.2%

US producer prices rose a modest 0.2 per cent in April, the Labour Department said yesterday in a report showing that the weak economic recovery is restraining price advances. Renter reports from Washington, April's rise in the producer price index matched 0.2 per cent advances in both March and February.

The report generally supported financial analysts' views that price pressures are under control and that the Federal Reserve, the US central bank, has room to lower interest rates without fanning inflation.

During the first four months of the year, producer prices had risen by a seasonally adjusted annual rate of 1 per cent, the department said. In 1991, the PPI fell by 0.1 per cent.

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## NEWS: UK

## BP to cut harmful emissions by 50%

By Neil Buckley

BP CHEMICALS, one of the world's largest producers of chemicals and plastics, is to spend around \$100m a year on cutting its emissions of hydrocarbons by 50 per cent.

The company yesterday disclosed full details of its emissions into the environment for the first time, and promised to do so annually. It also pledged to cut emission of hydrocarbons - which contribute to global warming - by 50 per cent from their 1990 levels by 1997, and to reduce solid emissions to water by two-thirds.

The company is committed to spending \$100m (£66m) this year on its environmental programme, compared with typical capital expenditure of \$600m, and expects to spend similar amounts annually for the next five years.

At its 10 largest sites in Europe and the US, including five in the UK, emissions and waste generation in 1990 were 170,000 tonnes, equivalent to 3.2 per cent of total production. These sites account for only 75 per cent of total production, but more than 95 per cent of all emissions.

## BAA launches £900m scheme for Heathrow

By Paul Betts, Aerospace Correspondent

BAA, the former British Airports Authority, yesterday announced plans to build a £900m-£950m fifth terminal at Heathrow airport, Europe's busiest international passenger airport.

The scheme, expected to lead to a lengthy planning inquiry, was attacked by local residents but welcomed by the airline industry.

Sir John Egan, BAA's chief executive, said the terminal would help Heathrow maintain its leading international position "well into the next century" and safeguard 10,000 jobs at the airport.

It would also provide extra capacity for 30m passengers a year at Heathrow, one of the world's most congested airports, and a new base for British Airways, the UK flag carrier which accounts for 40 per cent of Heathrow's traffic.

The International Air Transport Association (Iata) said that, without the new terminal and other air traffic control

and infrastructure investments, Britain could lose \$1bn annually of economic activity by the turn of the century.

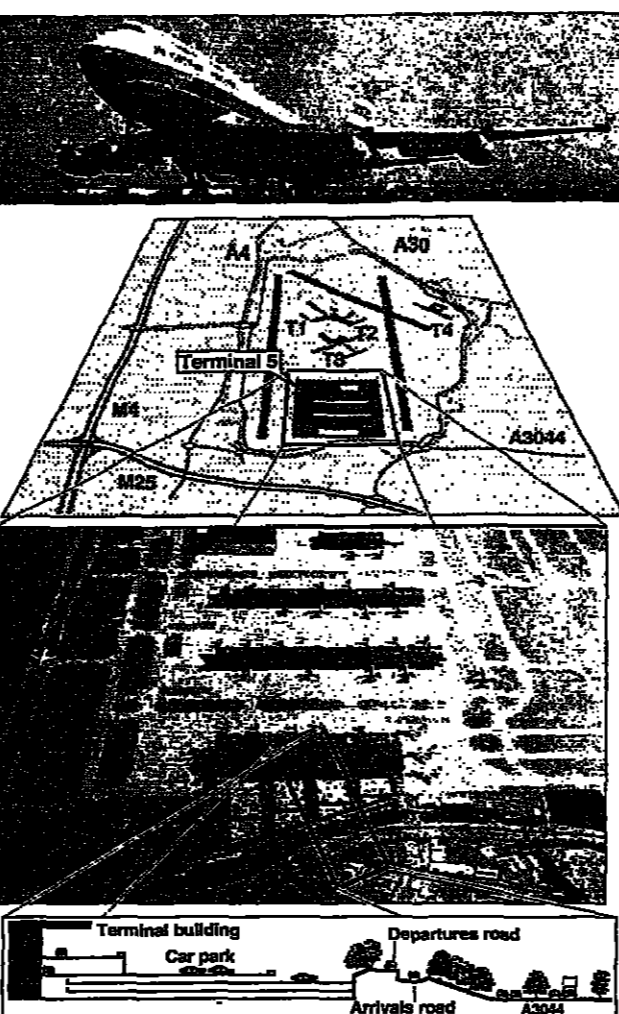
BAA had originally estimated the cost of building the terminal at £1.6bn, but Sir John said that had been reduced to £900m-£950m because of improved pre-planning and better project management. The project would be financed from cash flow and some debt, although the borrowings would not affect the company's current gearing levels, Sir John said.

Detailed architectural designs have yet to be completed by the Richard Rogers Partnership, Bovis, the construction arm of the P&O company, is also working on the project. BAA is hoping to win government approval for the project in 1997 after a public inquiry.

The proposals envisage building the terminal at the west end of the airport on the site now occupied by the Perry Oaks sludge works.

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## BAA plans for Heathrow



## Passenger demands lead to UK terminal fatigue

Paul Betts on London's future as an airline hub

CONSTRUCTION of a fifth terminal at Heathrow airport is an important but only partial step in providing London with sufficient capacity to meet growing passenger demand.

Although BAA, the former British Airports Authority, yesterday tried to focus attention on its plans to build a new terminal at Heathrow, it conceded that it would have to consider building a second terminal at the recently opened Stansted airport to cope with passenger growth in the next century.

The Civil Aviation Authority (CAA) also believes it will be necessary to build a new runway to serve south east England after the turn of the century.

But the fierce public debate and local opposition provoked by new airport developments has forced the BAA to adopt a softly-softly, stage-by-stage approach to its long term plans for its London airports.

Predictably, local authorities reacted strongly to BAA's announcement yesterday fearing that the new terminal would increase the number of flights at Heathrow, cause

even greater noise and disturbance and worsen traffic congestion on motorway links to the airport.

For BAA the construction of an additional terminal at Heathrow has become an urgent priority if the airport is to maintain its position as a leading international aviation hub and accommodate the steady growth in passenger numbers and a new generation of very large widebody aircraft.

"Terminal 5 is the key to the continued development of air services to the UK. Without the terminal... Britain alone would stand to lose a billion dollars of economic activity every year," Mr Gunter Esler, the director general of the International Air Transport Association, said yesterday.

Sir John Egan, BAA chief executive, warned that if the terminal was not built, the UK air transport industry risked facing "the general decline we have seen in other industries". Other European airports such as Paris or Amsterdam would take over some of Heathrow's share of the international passenger market, he added.

BAA hopes the government will give the formal go ahead

for the project in 1997 to enable the first phase of the terminal to be completed by 2001.

This will provide additional annual capacity at Heathrow for 10m passengers when the terminal opens in 2002 giving the airport a total capacity of around 60m passengers a year. The second phase would be completed by 2016, adding room for an extra 20m passengers a year.

Even with the completion of the first phase of the project, demand is expected to exceed capacity in the London area by 2005. With the completion of the second phase, there would still be a capacity shortfall of 27m passengers by the year 2016, according to current traffic forecasts, unless additional facilities are built.

A second terminal is likely to be needed at Stansted. Although the new £400m Stansted complex opened last year is still struggling to attract traffic, BAA remains confident the airport will eventually fill up as passenger growth recovers from the air travel slump caused by the Gulf war and the recession. Demand at Gatwick is also expected to grow during the next few years.

## Britain in brief



## Union rules out split from Labour

The leader of the TGWU, Britain's largest union, has ruled out an end to union links with the Labour party and expressed dismay at plans to dilute union influence over opposition policy-making.

Mr Bill Morris, general secretary of the TGWU, Labour party's largest affiliate, said there would be "no separation and no divorce" between Labour and the unions. He was reacting to proposals by rival candidates in the party's leadership election who have called for reform of the unions' 40 per cent control over party policy decisions at the annual Labour conference.

Mr Morris said there had been suggestions that unions should become no more than collection agencies for membership dues. "I am fascinated by the Labour Party debate. Not only are people making up policies on the hoof, they are also trying to instruct the unions as to what to do with their money and how to conduct their democratic procedures," he said.

## Private rail service begins

Britain's first private rail service has started between Scotland and London, offering discount seats on overnight services to the capital.

Stagecoach, the entrepreneurial bus operator providing the service, became the first private operator on the state rail network by leasing two carriages from British Rail, which are hauled behind BR's existing sleeper service.

The seat-only carriages have been taken over by Stagecoach on a three-year contract with BR and painted in the bus company's blue, red and orange livery.

## TV company seeks review

Mr David Mellor, National Heritage secretary, has agreed to give further consideration to a proposal to extend the moratorium on takeovers of ITV companies until the end of 1996.

Central Television, the independent TV company, has been campaigning against moves which from 1994 will, in theory, enable Community companies to take over all of ITV. In most other EC countries there are barriers to overseas takeover of television networks. Mr Mellor, the minister responsible for the media, has promised to re-examine the possible effects of changes in broadcasting legislation.

## Satellite venture launched

Mr Derek Lewis, former chief executive of the Granada group, is to set up an entertainment channel on satellite television in a joint venture between Thames Television and the BBC. The venture will

draw on the programme libraries of Thames and the BBC and is expected to be launched on the Astra satellite system towards the end of this year. Thames lost its ITV franchise in last year's competitive tenders.

## Schools to get extra funds

The government has released an extra £4.4m to help local authorities upgrade facilities and remove surplus places in schools. The funding, supplementary to the annual £534m capital budget for schools, is to help reduce the 900,000 empty school places, as estimated by the Audit Commission, the government's local authority watchdog.

## Tube staff offered 4.5%

London Underground has offered a 4.5 per cent pay rise to its rail and craft unions and appeared to make some progress on its disputed company plan with the transport union RMT. The pay rise, the same as that offered and accepted at British Rail, is likely to be accepted by the unions.

## Travel group criticised

The latest monthly report of the Advertising Standards Authority, indicates that dubious practices for holiday time-shares are still giving cause for many complaints, but that some travel companies have also recently been found to use misleading advertising. Three complaints against the travel company Airtrons are upheld by the ASA. In one, Airtrons used an advertisement headlined "Kids £199 to Florida", but the offer failed to point out that it was available only to one child per two full-fare paying passengers.

## Warning on pit closures

Continued pit closures in Nottinghamshire would have a "devastating" effect on the economic and social life of the county, the North Nottinghamshire Training and Enterprise Coal has warned the government. It urged the formation of a national energy policy based on the use of coal as a strategic fuel. This is the first political intervention by a training and enterprise council, 82 of which have been set up across England to bring the training system closer to private sector needs.

## Demand grows for physicists

The supply of physics graduates is falling well short of the UK demand for qualified physicists, and the position is likely to worsen, according to a report published by the Institute of Physics. The institute claimed that the number of physics-based enterprises in the UK expended from 20,000 to more than 51,500 in the 1980s, while in 1993 the number of new physics graduates will be only 13 higher than in 1983.

By contrast, it says, between 1983 and 1989 the number of science-trained graduates rose by 16 per cent in Japan and 61 per cent in Germany.

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## MANAGEMENT

William Dawkins charts the dealings of Japanese companies with Parisian protectionists and finds they are getting a warmer welcome these days

# The French connection

Ever since General de Gaulle insultingly described one Japanese prime minister as a trans-siberian salesman, France has had a schizophrenic attitude to Japanese investment.

Yet it hosts more Japanese factories than any European country except Britain.

A year ago, corporate planners in Tokyo were scratching their heads over the protectionist and anti-Japanese remarks of Edith Cresson, France's former prime minister. More recently, the new premier, Pierre Bérégovoy, has been trying to convince the Japanese that they are, after all, welcome in France.

Which one really represents French policy: the hostile Cresson or the nice Bérégovoy?

The experience of three very different kinds of Japanese investors in France - Canon, the office equipment group, Nissan cars and Ajinomoto, the food processor - suggests that the truth is somewhere in between.

Japanese - indeed any foreign - investors are welcome, so long as they do not disrupt local competition. Several lessons for newcomers can be drawn from the 10 years or more that each company has spent in France.

First is the power of the industrial lobby, which are strongest in telecommunications, cars and electronics. The civil service is sensitive to them, employs some of their top people, and exerts an all-pervasive influence.

Nissan and Canon found local partners to guide them through the system, while Ajinomoto got on by striking a joint venture with a pillar of the French industrial establishment.

Second, government policy switches are only a brake on foreign companies, rather than a deterrent to them. They are seen by Canon as a costly irritant and offered by Nissan as one reason why France has missed the wave of Japanese investment in European car plants.

"The political changes just make us hesitant," says Hiroshi Nakamura, who recently became president of Richard-Nissan, the Japanese group's French distributor.

Despite the difficulties, the trio are increasing their commitment to France. They say they are there for the long-term, rather than making a dash in under trade barriers.

Canon, for example, opened its European research centre in Brittany last month, which it claims makes it the first Japanese manufacturer to have all its functions represented in France.

Nissan has just bought control of its French distributor, while Ajinomoto and its French partner, the Lafarge Coppee subsidiary Orsan, plan to open a new Italian plant in Venice to make animal food protein supplements.

They are not alone. Elsewhere, Sony has opened its fifth plant in France. Hitachi will in July open a disk-drive centre in Orleans, and Toyota is planning to take a minority stake in its distributor.

Getting into France was the least of the three investors' problems. The French administration welcomed Canon to Liffé, Brittany, in 1983, because government attempts to create a French-owned photocopy industry had come to nothing, says Jacques Le Gall, an adviser to Canon France.

Since then, Canon has followed a classic Japanese step-by-step investment pattern. Starting with local assembly of imported components, it has built up a broad base of local suppliers and has set up a club to keep them up to date on its rigorous quality requirements.

Local content is around 60 per cent and Canon recognises it is politically advisable to keep it high, says Le Gall. The new research centre in Brittany completes the chain.

Canon's difficulties began in 1987, when its electric typewriter production in Brittany was subject to European Community anti-dumping duties on the grounds that it contained a high proportion of dumped components.

More seriously, Canon found it impossible to get government approval to sell its facsimile machines in France, a product that faces competition from politically-influential French companies like Alcatel, Matra and Sagem.

The reason given again was not enough local content. It was at that point that the Japanese group headhunted Le Gall, an adviser to the then regional development minister. Canon had to export its French-

made fax machines for two-and-a-half years until mid-1989, when the government was at last satisfied that the local content was high enough to sell faxes in France.

Inside the plant itself, Canon has found it surprisingly easy to persuade a mainly French workforce and management to adopt Japanese methods, such as total quality control and consensus decision-making.

Instead of reacting to fast decisions from the top, French executives have had to get used to making their own input to a very slow decision-making process, says Le Gall.

Out of the 750 staff at Liffé, 30 are Japanese, mostly in management. The French staff have adapted well: the plant is 97 per cent as efficient as its counterpart in Japan and more efficient than Canon's German operation.

Nissan's experience is similar to Canon's: years of frustrating resistance from officials, but a harmonious relationship with French staff and customers.

Its entry to France started in the early 1980s when the Japanese company appointed a French distributor, Jean-Pierre Richard.

At first, Nissan wanted a 34 per cent interest in the new company, Richard-Nissan, but the government refused. "They never gave us a reason," recalls Akimari Okabe, marketing director.

Nissan waited until 1986, before taking 9.55 per cent, below the threshold then needed for official clearance.



Then, three years ago, Richard told Nissan that he wanted to retire and sell his 72.09 per cent stake to the Japanese car group.

Nissan was granted permission to buy last summer, with no conditions attached.

"The atmosphere has dramatically changed since that agreement," says Okabe. Nissan's path was also eased by getting Société Générale, a leading French commercial bank, to present its case.

With that hurdle out of the way, Nissan is now setting about transforming its French dealer from a small company with "one man top-down management" to a group where responsibility is widely spread, says Nakamura.

Since Richard's retirement, the group has brought in four Japanese managers to join the 250 staff, head-

ing up new departments, from sales to marketing and personnel.

So far, the French staff are taking well to the change, says Hervé de Villeplée, Richard-Nissan's vice president.

Ajinomoto's 19-year-old joint venture with Orsan never experienced such bureaucratic teething problems.

This could be because the market for animal food protein is free, with no government interference, argues Alain Crouy, chairman of Eurolysine, the joint venture with Orsan.

The French partners reckon they have benefited from adapting Ajinomoto's production methods to their jointly-owned plant in Amiens, which has increased productivity by a third in three years.

They have kept a French union structure and workforce, but the

management is split equally between Japanese and French staff. "What we try to do is to marry French creativity with Japanese methods," says Crouy.

On one thing all three agree. France has been getting less protectionist over the last decade as the government has become anxious not to fall behind on foreign investment of all kinds.

The door may be swinging open. But the trio's experience shows that an issue track to the establishment is still useful, whether it be a headhunted government official, an influential bank or a joint venture partner.

\* *The Evolution of Japanese Direct Investment in Europe: death of a trans-siberian salesman; Harvester Wheatsheaf*

Mention foreign language training and most Britons still flinch.

In despair, many managers spend thousands of pounds on training programmes they have not seen or tried, nor evaluated to see whether they meet the needs of staff.

Some send employees on lengthy courses without any idea of the value of the training to either the individual or the company.

This lack of quality control is endemic in British business, according to Stephen Hagen, curriculum director for languages at the CTC Trust, the government initiative to bolster industry's involvement in higher education.

He has co-edited a new book\* setting out guidelines for companies

## Talking turkey on foreign language lessons

Christopher Price picks and chooses from the many training programmes now on offer

planning to buy language training packages. "Too many companies are adopting a 'quick-fix' approach," says Hagen, "while failing to apply the normal rules of purchase to language services as they would to, say, buying a computer system or a company car."

The wide variety and styles of language training means that the potential purchaser faces a vast array of choices.

A typical corporate response to language training would be:

- to send for some well-advertised tapes;
- to hire a French student to teach a lunchtime class;
- to send staff along to the local college;
- or to expect staff to learn in their own time and at their own expense.

For Hagen, this type of response is irrelevant and can even be damaging. "All our competitors in other countries are now pursuing integrated language strategies and

it is important that we follow suit," he says.

Hagen recommends that companies establish a formal language training policy, setting out the objectives and including a specific budget.

A company should also undertake a "language audit" to gauge the language learning abilities of existing personnel. Linguistic aptitude tests, available from the Open University and from colleges affiliated to the Export Language Train-

ing programme, would play a part in this to determine how long tuition for individual employees would take and the consequent cost.

The savings for a company pursuing a qualitative approach can be enormous. Using data from the Australian government, Hagen has calculated the average time it takes business people to reach a set level of language skill. A "slow-track" learner can take 210 hours to reach the same "survival" level in a Euro-

pean language as it can take a typical "fast-track" student to reach in 75 hours. At a training cost of £40 per hour, the difference can be a staggering £5,400 per employee. If the language is Japanese, the difference can be 300 hours.

There are other issues to be considered.

- Should the training be conducted on- or off-site?
- Should it be condensed or given on a continuing basis?
- What are the abilities of the

teaching staff and are they relevant to commercial needs?

● At the end of it all, return on investment should be measured.

With the debate in continental Europe now centring on which third of fourth foreign language should be studied, Hagen says that it is time for the era of consciousness-raising over language training in the UK to move on.

"The message is slowly getting through. The debate now is about quality of training, about how individuals can best be utilised and how companies can get value for money."

\* *Languages in International Business: a practical guide, edited by Doug Embleton and Stephen Hagen. £10.99. Hodder & Stoughton*

## BUSINESS AND THE ENVIRONMENT

Christina Lamb describes how a Japanese colony in the Amazon offers a lesson in sustainable development

### Passion in the forest



abandon pepper it began introducing other crops such as passion fruit, rubber, melon and oil palm.

Today, the 180 farms of the co-operative produce around 40 crops. Jorge Ito is typical, growing seven crops on his 200-hectare farm in a mosaic of crop systems, native forest and secondary forest regeneration.

Its interplants short-lived plants such as papaya and passion fruit, which take only two years to grow with longer-life crops such as pepper. Rubber and cacao grow together, the rubber trees providing necessary shade for the cacao. He has started growing berries for natural colour dyes, acerola, a fast-growing, cherry-like fruit, and kale

for cattle feed. "This way we spread our risk," explains Ito.

However such a system - involving heavy use of nutrients to prevent soil exhaustion - requires considerable capital investment and management techniques which may make it difficult to copy.

The co-operative set-up has facilitated access to credit, machinery and techniques, employing two agronomists. There is considerable interchange of information with working groups for each crop.

The current low pepper price of only \$850 a tonne with no short-term prospect of improvement means passion fruit has now taken over as the colony's main crop, producing 1,285 tonnes last year.

With a \$900,000 loan from the Amazonia Bank last year the co-operative set up a factory to process tropical fruit into pulp and then freeze it to be used for juices and ice creams on both the domestic and export markets. "We decided that the only solution was to stop being a producer of primary materials which will keep us forever backward. Rather than supplying industry we must begin processing ourselves," says Mineshita.

They are focusing on three fruit: passion, acerola and cupuacu. Passion fruit was chosen because it is already has a market in the US and Europe, although the co-operative's only contract is with a fruit juice company in São Paulo because it does not yet have sufficient production for export.

Acerola is native to Brazil and its high vitamin C content (around 50 times that of an orange) has made it popular in Japan. The co-operative is hoping to develop a market in Europe and is currently negotiating with a French company as well as in Korea, Portugal, South Africa and the US.

Cupuacu is a hard, coconut-like fruit with a coating of brown dust on the outside and an interior of fleshy white fruit with a strong aroma. The fruit is unknown outside Brazil but Mineshita is hoping this will change through a deal recently struck with American non-profit organisation Cultural Survival International.

"It is crucial for these communities to get control over production. In studying agriculture in the Amazon there has been over-emphasis on technical roadblocks and under-emphasis on capital, marketing and processing which is where the game is really won or lost," says Christopher Uhl, a biologist at Penn State University who has been studying the colony.

The co-operative is now concentrating on increasing production and testing other fruits such as barbaçat and graviola. The stress is always on quality through continuous testing and selection of the best plants.

According to Evandro Kikuchi, deputy factory supervisor: "The risk is, if we develop markets for these fruits, that other people will begin to produce and saturate the market causing the price to fall. We know the survivor will be he who produces best quality."

The focus on native Amazonian fruits may win points from ecologists but the real motive is economic. "We know we cannot compete with the south where they have advanced technology and access to market, so it is better to concentrate on native fruits," says Mineshita.

"If we fail our only option will be to use our land for pasture or woodcutting which will destroy the forest."

## Temperatures raised by free market fever

Bolivia's tropical woodlands are being chopped down at a rate which rivals Brazil, writes John Barham

Yet another tropical rain forest disaster is in the making. This time the culprit is Bolivia. Its thickly forested eastern lowlands are being devastated by logging companies and migrants in a repeat of the blunders in neighbouring Brazil.

From the air, the virgin forests look like an endless dark green carpet, occasionally slashed by broad rivers which reflect the sun in blinding silver flashes.

Yet international aid officials estimate that the forests are being cut down at a rate of 200,000 hectares a year. That represents a loss of about 0.5 per cent of the forest cover every year, among the world's highest depletion rates.

The problem is free enterprise. Bolivia is one of Latin America's pioneers in experimenting with free market reforms. It was even the first debtor nation in 1987 to allow "debt-for-nature" swaps, in which foreign debt is swapped for local currency and used to pay for conservation projects. It also claims to have some of the continent's most progressive environmental legislation. But the weak, lame duck government is paralysed by indecision and is in thrall to special interest groups. Bolivia may have released companies from the weight of state control, but it has not prevented them from committing environmental plunder.

According to Cedeño, an independent La Paz information centre, the government has granted 22.5m hectares of logging concessions - half the country's forests.

Aid officials complain that agencies like the World Bank, which was implicated in Brazil's environmental catastrophe and is active in Bolivia, are not doing enough to temper the free market fever.

The government did act in January 1990, when it approved the grandly-titled "Historical Ecological Plan". In theory this froze suspended all environmentally aggressive activities while new

policies were drawn up. But environmentalists say no attempt was made to stop logging.

"It is frightening, it is uncontrollable - it is enough to make you cry. You see areas being plundered, but there is no control. Nobody is responsible for anything," said one scientist.

Loggers only harvest the most valuable trees. This both reduces ecological diversity and lowers the forest's economic value, which in turn reduces the incentive to protect the jungle. Forestry officials earning \$100 a month do not think twice at taking bribes to let convoys of trucks loaded with hardwoods pass their checkpoints.

Land-hungry migrants, many of them miners who lost their jobs when loss-making state-owned mines closed down, are also entering into the lowlands.

Close to the deforestation front line is the ecological reserve that was established under the pioneering 1987 debt-for-nature swap. The Estación Biológica del Beni, a 135,000 hectare reserve, lies in the forested foothills of the Andes.

An important part of its work is developing sustainable development strategies. "Increasing agricultural production reduces pressure on natural resources. Settlers do not destroy the forest for fun, they do it to grow food. So we try to take our knowledge to them," said Carmen Miranda, assistant project co-ordinator. However, her work is being swept aside by an avalanche of migrants.

Aid workers say the government has done nothing to organise the

new settlers. They receive no support or technical guidance, so they quickly degrade the fragile forest soils. And as crops fail, they advance deeper into the forest.

Meanwhile, promising mineral deposits have just been found in eastern Bolivia. The government's draft legislation may meet international environmental standards and multinational mining companies are taking more care in protecting the environment, still, training would represent yet another threat to the region.

Yet, as Carlos Arze of the government's National Environment Fund, points out: "You have to balance the deterioration of the environment against the in-flow of resources to a very poor country."

The drug trade, the most extreme form of free enterprise and Bolivia's largest source of hard currency, is also wrecking the environment.

Farmers plant coca bushes in unsuitable soils which are rapidly denuded, forcing them to drench the soil with pesticides and artificial fertilisers. As if that were not enough, huge soyabean farms that have sprung up around the boom town of Santa Cruz de la Sierra, the eastern region's principal city, are eroding the soil and creating "sand deserts". The sand dunes have even become a tourist attraction.

The World Bank is encouraging the government to limit the damage by introducing land use controls, environmental impact studies and land pricing mechanisms to curb land speculation. But officials are at a loss as to how such policies would be made to work in a country where effective government barely exists outside big cities.

Even so, there is hope. Growing environmental awareness and disgust at corruption, plus pressure from aid donors and international development agencies, is beginning to make the government take the environment seriously.

# WEST NORFOLK

Wednesday May 13 1992

■ Fast trains will soon bring the area within 100 minutes of London: PAGE 3

**F**OR LONG a quiet town, somewhat off the present century's beaten tracks, King's Lynn was not always so. The capital of western Norfolk, between Norwich 40 miles away and the Fens, King's Lynn was in medieval times one of England's premier towns, gaining the first of many charters as far back as 1204.

It owes its early growth from the 11th century onwards, to its position on the eastern bank of the Great Ouse estuary, and to the strength of the East Anglian economy in those times.

The town grew prosperous as a centre for exporting the products of the local wool trade and for importing the fashionable goods and necessities of the day from other important centres across the North Sea, in particular the cities of the Hanseatic League.

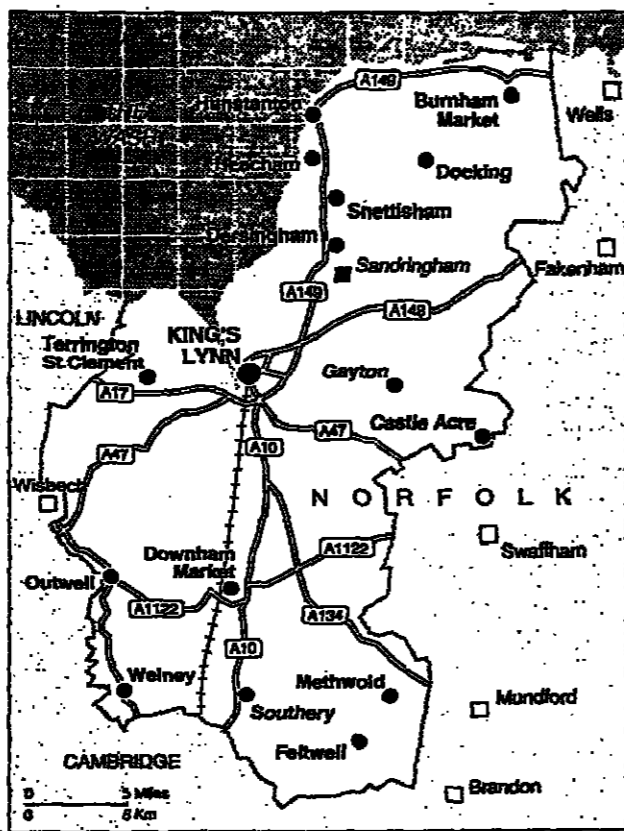
It was after visiting Lynn in 1215 to feast with the burghers that King John, in one of the best-remembered episodes in English history, lost his jewels in the Wash, the light into which the Great Ouse pours its waters.

The legacy of King's Lynn's long period as a great port remains in one of the finest collections of medieval domestic buildings in England, in its two market squares, in King Street and Queen Street, and in the lanes which lead back from them to the town's old wharves.

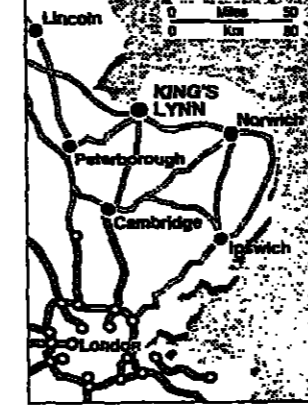
It boasts two guildhalls, including the oldest in England, the Guildhall of St George, dating back to the early 15th century, and the Guildhall of the Holy Trinity from 1421. St Margaret's church is even older, with parts going back to the 12th century.

As late as the 18th century, King's Lynn remained a fashionable town, not quite in the same league as Bath or Cheltenham, but still a desirable resort in which to spend part of the year.

The most recent boost to the fortunes of the area came in the 1960s when an overspill agreement was signed with London. This has meant a virtual doubling of the population of King's Lynn to what it is



Alan Pask, chief executive of King's Lynn and West Norfolk Borough Council; and Dick High, economic development officer



Pedestrianised shopping in historic King's Lynn, above; and top right, riders on the Sands near Burnham Overy.

Plans for improved road and rail links are adding to the region's attractions, reports Stewart Dalby

## Drive to attract new investment

today, just over 40,000. West Norfolk as a whole, which also includes the market town of Downham Market, as well as the royal estate at Sandringham, and the seaside resort of Hunstanton, is home to around 135,000 people.

A number of companies, particularly in food-processing and agriculture-related engineering, have been attracted to the area - partly through government grants - to supply jobs for the enlarged population. The region also remains one of the most prominent vegetable growing areas in the country, although fewer and fewer people are employed in this sector because of mechanisation.

Though there have been some job losses in the present recession, including the closure of Anglia Canners at a cost of 200 redundancies, most of the companies which arrived in the 1960s and 1970s, such as Campbell's Soups and Sun Electric, have remained and many of them have expanded. Unemployment for the area at just under nine per cent is high for East Anglia, but it is not out of line with the Midlands or the national average.

The port's potential is limited because of the heavy tidal drop and the distance from the open sea. But Associated British Ports, the owner, recently made a £2m investment in a new dock - as a result, the port can now accommodate vessels carrying 5,000 tonnes of cargo as opposed to 3,000 tonnes.

The local authority's aim now is to attract high technology or service employment to capitalise on the area's advantages as a location - "the national economy has been changing. There are fewer blue collar or industrial jobs, and more and more jobs in new white collar service industries and high technology concerns."

"Frankly, we have not been getting our share of these new industries," comments Mr Richard High, the council's chief economic development officer.

The drive to attract new investment is timed to take advantage of British Rail's decision to electrify the railway line from London to King's Lynn. This will cut the journey time from well over

two hours to 100 minutes. The new service is due to start next month. To secure it, the King's Lynn and West Norfolk Borough Council have had to promise a revenue guarantee to British Rail of £650,000 over the next five years.

The council has also secured agreement from the Ministry of Transport that the three routes which pass through West Norfolk, the A10 from King's Lynn to London, the A17 from King's Lynn to Newark, and the A47 from Peterborough to Great Yarmouth will all be dualled or upgraded in the next few years.

The rail link is seen as particularly important, as Mr Alan Pask, the chief executive of the West Norfolk District Council points out.

"The faster rail service is the key to attracting new investment. From next month, King's Lynn will be up on the board at King's Cross in London as a destination. We will be locked into Europe, and the idea that we are remote and inaccessible will be gone."

The shorter journey time is not expected to result in large numbers wanting to commute to London (although Mr Pask points out that by rail King's Lynn will be closer in journey time to London than Norwich and people do commute from Norwich).

It will, however, become viable to relocate back office or administrative functions in West Norfolk while maintaining a small headquarters in London. Executives will easily be able to travel between the two bases.

It is companies willing to do this that West Norfolk, with the help of agents in London, is targeting. "We are targeting companies in the services or high technology sectors that would employ up to 500 people. We could take a company wanting to employ 1,000 but not too many of them," says Mr High.

Apart from better communications, the area has other attractions. The 9 per cent unemployment rate represents 4,500 mostly skilled male workers. There is a very low female activity rate. There could be a further 4,000 women looking for jobs if a bank or insurance company decided to establish itself.

Property and land are also modestly priced. Residential housing can be half the cost of something similar in the south east. Industrial land costs £100,000 an acre - cheap, even compared to Peterborough.

Office rents or rents for B1 office/light industrial properties can be as low as £5 to £6 a sq ft which compares with £15 in Cambridge.

One problem is that there is hardly any modern B1 property on the market as low returns have meant there has been little speculative property development. There is plenty of land scheduled but very little new B1 type premises - the kind that high technology companies like to move into - has been developed. Local authority officials are, however, convinced that this problem will not be difficult to overcome.

Initially, too, companies which want to design and build their own properties will be targeted.

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## WEST NORFOLK 2

Manufacturing and agriculture are leading regional employers

## Financial service groups targeted

AGRICULTURE still accounts for seven per cent of total employment in West Norfolk, compared with a national average of two per cent. There are also between 3,000 and 4,000 jobs in tourism.

But manufacturing is the main employment sector accounting for more than 40 per cent of jobs, although the largest single private sector employer - on a year-round basis - is Foster Refrigerator, which employs 650 people. Some of the food processing companies have seasonal workers - thus Frigoscandia, for example, employs between 730 and 438 at various times of the year. It has been established there for 26 years.

The manufacturing economy of West Norfolk today is shaped to a great extent by the influx of companies in the 1980s and 1990s. They were attracted either by government grants or the availability of quality raw materials - namely vegetables and other agricultural products.

Amongst the larger companies there is an emphasis on food processing, refrigeration and engineering. As in many

rural areas, there are number of small but specialised manufacturing concerns in sectors such as furniture making, crystal glass-blowing and in printing, stationery and artists' materials supplies.

In the main sector of manufacturing and food processing, some of the well-known names include Campbell's Soups, Master Foods, Plumrose, Del Monte, British Sugar and Frigoscandia.

Many of them established factories in the area in the 1960s. According to Mr Nigel Payne, the manufacturing and logistics director of Campbell's Soups, the location of King's Lynn was chosen in the early 1960s - not only because government assistance was offered but because of the plentiful supply of good quality produce such as tomatoes, mushrooms and other vegetables.



Modern housing in traditional style in the old town, King's Lynn

Mr Charles Abbs, Frigoscandia's general manager, says: "We are a frozen food processor, packer and storer. We pack around 75,000 tonnes a year - of that, around 25,000 tonnes are either peas or potatoes in some form."

The company, originally a

cold storer, sees itself as service-provider - "we don't actually make anything - we package for 'own-label' customers, such as Tesco and Safeway."

But Foster Refrigerator (UK), although sometimes identified with the food-processing sector, is a leading manufacturer

of refrigeration equipment for the commercial, retail and hotel sectors. It arrived in King's Lynn in 1963.

Some larger companies were located in the region before government assistance was available. For example, Dow Chemicals has been in King's

Lynn since the mid-1960s.

Mr Ed de Graaf, the UK manufacturing manager of Dow, says that the company set up in the area because of its agricultural emphasis and the subsequent market for insecticides.

Cooper Roller Bearings, which employs 330 in King's Lynn, and describes itself as a manufacturer of split cylindrical bearings, has been in the area since the late nineteenth century. It grew out of a company formed by an inventor called Thomas Cooper who built, sold or rented steam tractors for agriculture.

Porvair, one of the area's high technology companies, has established an international reputation in microprocessor technology was originally part of the Chloride group with facilities in the area.

Sun Electric UK, which

employs 250 people in King's Lynn is another high technology company. It is a subsidiary of Sun Electric Corporation, a world leader in the supply of vehicle diagnostic, exhaust emission-testing and wheel service equipment to automotive industries.

The company originally set up a facility in West Norfolk in 1967 to service clients in what was then the European Free Trade Association (EFTA) trading region of Scandinavia, but not because there were government grants available.

While companies have found that while the old problem (now about to be eased) of poor communications has added to transport costs, this difficulty was more than offset by the relative cheapness of land and property and by the right labour availability. Mr Ed de Graaf comments: "King's Lynn is a relatively low-cost area and we are successful here. We have no thought of moving."

There has, however, been one conspicuous casualty of the recession: Anglia Canners was taken over and closed down with the loss of more than 250 jobs.

But most companies have grown and expanded. Sun Electric, for example, has invested more than £1m in recent few years and expanded its factory space from 55,000 sq feet to 67,000 sq feet.

Campbell's Soups has increased output in volume terms by 40 per cent in the past 10 years, although with a reduced workforce.

Mr Abbs at Frigoscandia says: "We have increased our output each year for the past 10 years, even though there is a static market for frozen vegetables."

Although the manufacturing sector in the region is generally in good health, the area has not attracted larger companies for some time. Given that food processing is a "mature" industry, with companies vying for bigger shares of a stable market, and given that communications to the region are about to improve, the local authorities are keen to attract new investment to West Norfolk, particularly in the financial services and high technology fields.

Stewart Dalby

Old Hanseatic links are being revived in a bid to attract more visitors

## A well-kept secret is about to be revealed

AT THE north end of King's Lynn, the last fishermen's yard in the old fishing quarter, next to the port, has been rescued from oblivion. Here, at True's Yard, two tiny restored cottages stand testimony to the days of fishing under sail and form a home for decades of maritime data.

Just around the corner there is a different sort of local colour - the tattooist's shop window displaying an astonishing variety of designs.

Walk through a couple of twisty, narrow streets and you suddenly find yourself in the Tuesday Market Place, a huge car park most of the week but transformed on Tuesdays and Fridays into the market for which it was designed in the twelfth century.

Around the marketplace stand the handsome merchants' houses dating from the prosperous days when King's Lynn was one of just half a dozen English ports allowed to join the Hanseatic League, a protective trading partnership of north European merchants established in the fourteenth century.

Banks, hotels, pubs and other businesses may have come and gone in the marketplace, but its character and

beauty are undiminished. Go south along the east side of town, avoiding the ugly, pedestrianised High Street, taking in the Guildhall of St George, the oldest guildhall in England and home to the annual King's Lynn Festival, the ornate Customs House built in 1683, and arrive at Saturday Market, a focal point of the town since the early 1100s. It, too, houses cars every day except, naturally, market day on Saturdays.

Here stands St Margaret's Church, begun in 1100 by the first Bishop of Norwich, completed in the thirteenth century and largely rebuilt in the eighteenth century.

At the front door are marked the flood tides which have reached it - the last and worst on January 11, 1978. Opposite, stand two buildings with chequerboard flintwork: the Victorian Town Hall and the Guildhall of the Holy Trinity, built in 1421 and home of

King's Lynn's treasured regalia, including the renowned King John Cup and Sword (both fourteenth century, made at least 100 years after John's death).

The attractions of King's Lynn have been West Norfolk's best-kept secret, according to Mr John Barrett, head of tourism and leisure for King's Lynn and West Norfolk Council.

His department is going to change all that. They are about to start a five-year marketing campaign for the town, drawing extensively on its links with Germany through the Hanseatic League.

"There is a unanimity among people of the town that we have by no means reached the full potential for visitors without spoiling the facilities," he says.

Tourism has become the second most important employer in the area after agriculture since Anglia Canning closed

down, but much of the employment is seasonal.

Mr Barrett's aim is to extend the length of the season as far as possible, and the promotion of the historic town as a tourism centre is central to that aim.

In October, the council plans to spend £20,000 on improvements to the already excellent tourist information centre (housed in the guildhall heritage centre) and develop the goals behind it as a visitor attraction.

Phase two will develop more of the town hall complex with a video to bring the history of the town to life. Hopes are high for 40-50,000 tourists a year.

Mr Barrett's brief is a huge one. West Norfolk is England's fifth largest district council by area with a population of 130,000.

Its traditional catchment areas for tourists are Cambridgeshire, Bedfordshire, Northamptonshire and Leices-



Sheep grazing at Holkham Hall, above, the seat of the Earls of Leicester

tershire, particularly Peterborough.

There is also an increasing number of visitors from southern England, Dutch and German tourists, via Harwich, and a significant number of French.

Although the council also promotes the pretty town of Downham Market and the watery lens as tourist attractions, the main pull for visitors is the stretch of coast along the Wash from King's Lynn, up past the royal parks of Sandringham, the lavender farm at Heacham and on to the neat seaside resort of Hunstanton. The town (resident population 5,000) receives a million day-visitors a year and 100,000 staying-visitors (compared with Southend, which takes in 2.5m day trippers and has a population of 130,000).

Hunstanton does not seem to have been affected by the recession, neither has it suffered the decline of other British resorts over the last 10 years. The council began investing in 1981, when it bought the resort's Princess Theatre, continuing in 1984 with the construction of the seafront Oasis Leisure Centre, complete with indoor and outdoor swimming pools, toddler facilities, squash courts and

Tourism has become one of the most important employers in the area, reports ANNIE WILSON

indoor bowls hall. "We have continued to upgrade and develop facilities," Mr Barrett says. "It represents a huge investment in basic revenue terms in keeping the place neat, tidy, clean and attractive to visitors, keeping the toilets clean, and as a result we receive many unsolicited testimonials every year. It costs us, but we were the only Norfolk resort to win the Blue Flag award (from the Tidy Britain Group)."

Although Mr Barrett believes there is scope to improve the facilities of Hunstanton, finding more car parking space would be a problem. The council is trying to persuade British Rail to reinstate the now defunct King's Lynn to Hunstanton line with a steam train - a move which proved remarkably popular along the coast at Sheringham.

Next door to the Oasis centre is The Kingdom of the Sea, a private development by Pleasureworld which they have since replicated in Great Yarmouth. It is a hugely successful display of fish in natural settings and, like the Oasis, provides excellent family entertainment, whatever the weather outside. Attracting Pleasureworld to Hunstanton was a great success for the council and they have taken careful note of the little things that please their customers.

"This was the first development Pleasureworld made in eastern England, purely because of the number of visitors to Hunstanton and the attention we pay to our facilities," says Mr Barrett. "We lay great emphasis on getting the basics right: the dog warden concentrates on

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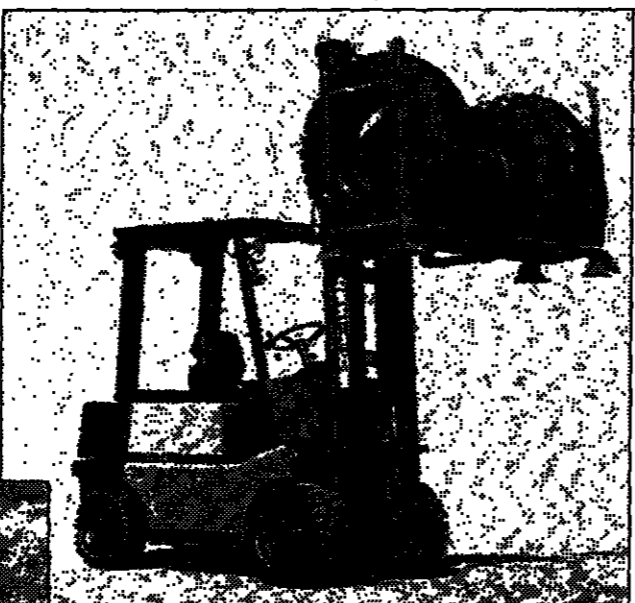
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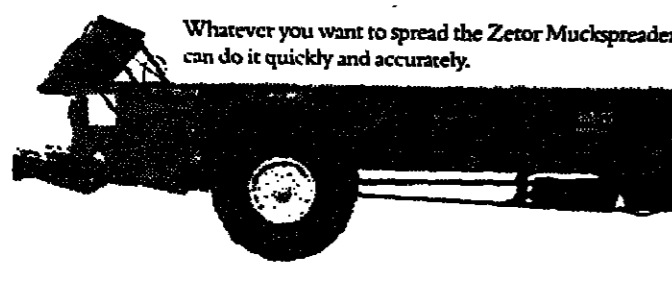
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Fast trains will soon bring the area within 100 minutes of London, says Tim Burt

## All change on the misery line

TRAINS WILL leave King's Cross station in London this morning within three minutes of each other. One, the 08.45, boasts air conditioning, comfort and a full restaurant service. The other, the 08.48, has less style. It is cramped and Spartan, and the heating is erratic.

At 11.06 both trains should be pulling into stations. The first will have raced more than 230 miles north to Darlington; the second will have rattled less than 100 miles across the fens to King's Lynn.

While distant parts of Britain are served by modern high-speed trains, west Norfolk is linked to London by an indirect and unreliable service. The rolling stock is vintage. Eden was prime minister when it was new, and railway enthusiasts regard the semaphore signals as memorabilia.

There are few railway enthusiasts among the passengers who travel regularly across the dull flat landscape to King's Lynn. They have endured a shabby service for years on this dead-end line, one of British Rail's more neglected routes. But this is about to change.

BR is spending £20m on electrifying the line and £12m on new signalling. In spite

of several delays, the work should be completed by August and fast trains will bring west Norfolk within 100 minutes of London.

Norfolk councillors claim that the credit for the improved rail link lies not with BR or the Department of Transport but with local government officials.

They saw their chance for electrification in 1986 when the 40-mile spur from Cambridge to King's Lynn was included in Network SouthEast rather than the diesel-minded Regional Railways.

Aware that Network SouthEast favoured electric services, council planners lobbied hard for King's Lynn to be plugged into the grid. Costs could be kept down, they argued, by using equipment left over from the electrification of the east coast main line which was stored at Peterborough.

BR was not convinced. They were persuaded to proceed only after King's Lynn and West Norfolk borough council agreed to make good any losses on the newly-electricified line. This revenue guarantee scheme could cost the council £650,000 over the next five years, but Adrian Parker, the borough planning officer, thinks it is a worthwhile investment.

"Electrification would not have happened without local authority intervention. BR was relatively willing but the Department of Transport was hostile, so we had to put together the revenue guarantee scheme," he says.

As part of the rail improvements, several stations will be upgraded and councillors hope there will be increasing use of the freight marshalling yard at King's Lynn. The yard could be developed to

serve the town's docks, where freight traffic is carried on a twice-weekly service to Hamburg operated by the German Washbay Line.

The port is dominated by coal shipments from Germany and Poland and exports of grain and scrap. But the docks are underused compared with their heyday in the 1980s when they were run by "old sixties" - dockers who worked from 6am to 6pm to load and unload cargo.

Now councillors hope to stimulate a new boom by promoting services to Hamburg as the best route to reach markets in eastern Europe.

Read hauliers, however, say the problem is not access to eastern Europe but access to East Anglia. Too many trunk roads are handicapped by single-lane traffic and routes where slow-moving farm machinery

can cause long delays. The Freight Transport Association says: "It is a difficult region in terms of roads. The east coast ports offer the best routes to the [European] single market, so we are anxious to see the principal routes improved."

The Department of Transport (DoT) denies trunk roads are being neglected. It is funding improvements to three routes which pass through west Norfolk: the A47 from Peterborough to Great Yarmouth; the A10 from King's Lynn to London; and the A17 from King's Lynn to Newark. More than £25m is being spent on the A47; £32m on the A10 north of Cambridge; and £45m on the A17.

Most of this expenditure involves widening single-lane roads or converting them to dual-carriageway. The borough council,

which wants all three trunk roads converted to dual-carriageway, thinks the DoT has under-estimated traffic flows.

"The growth in heavy traffic has been so rapid it is in danger of exceeding the figures planned for the year 2000," says Adrian Parker. "We need dual-carriageways but [improvements] have been under-funded. East Anglia as a whole has been grossly under-funded."

Better trunk routes should make King's Lynn the gateway from the east Midlands to the coastal ports, but Mr Parker thinks the region needs 15 years of road improvements before the town can fully assume that status. In the meantime, he hopes faster rail services and improvements to secondary roads will attract developers and new residents.

The town is looking southwards for its future. It sees itself as an overspill site for homebuyers and businesses which cannot be accommodated in Cambridge. More than 150 hectares of the town's Hardwick industrial park have been earmarked for expansion and electric rail services should make it an attractive option for commuters to the university city.

### Threat to vegetable crops

## Anxiety over drought

FARMING in West Norfolk is facing a potential crisis. Producers are warning of deteriorating output and fear their livelihoods are at risk because they can no longer rely on a basic natural resource - water.

A succession of hot summers and dry winters has led to one of the longest droughts in this century, and some farms in East Anglia - the so-called "breadbasket of England" - may not survive without heavy and sustained rainfall.

Farmers in the region have now endured 45 months of drought, forcing them to revise production plans and install costly irrigation equipment. They are now contemplating another difficult year following a winter in which average rainfall has fallen by almost 30 per cent.

The main victims of this shortfall are not the farmers practising practice-style cereal production, although that too has been affected, but the vegetable growers who depend on careful irrigation of their crops.

More than 16,000 hectares of West Norfolk are used for growing crops such as potatoes, carrots and salad vegetables.

The farmers working this land warn that yields could be halved if water supplies run dry, and they fear the quality of their produce may fall to meet the rigorous standards set by their leading customers - the supermarkets.

For many of these farmers the "villain of the piece" is the National Rivers Authority (NRA). It controls water supplies through irrigation licences and can impose restrictions and a total ban in times of shortage.

Last summer the NRA banned crop irrigation in some areas and producers fear a similar move this year could threaten their businesses.

Concern over water restrictions increased last month when the NRA announced more than 40 areas of eastern England where farmers using spray irrigators could face restrictions.

Mr Roger Hyde, the NRA's regional general manager, warns: "We face a very difficult year and we have already told more than 3,000 abstractors [farmers who use surface and ground water reserves] of the need to conserve water."

"Despite recent rainfall, underground resources remain at low levels and it is here that the risk factor has increased since last year."

Anxious to avoid restrictions on irrigation, the larger vegetable producers have invested heavily to install reservoirs enabling them to store water for summer use.

John Shropshire & Sons, one of East Anglia's largest vegetable producers, has spent about £100,000 on reservoirs. A spokesman for the company, which covers several farms including one at Southey near King's Lynn, describes the reservoirs as an "insurance policy" for the group's £32m turnover.

Many smaller farms, however, cannot afford such an outlay and they could be hit hard by NRA limits on water use - "those who can't invest in reservoirs may have to give up growing vegetables," according to the John Shropshire spokesman, who adds: "There might be a switch of vegetable production out of East Anglia to other areas where they have more water."

The prospect of lasting water shortages has already encouraged some farmers to diversify into non-production activities such as field sports - clay pigeon shooting and fishing - and conversion of farm buildings for light industrial and residential use.

Broadly, vegetable production could cease to be lucrative for all but the richest producers just at the time when farmers in other sectors - cereals and livestock - are considering it as an alternative source of income. Crops such as potatoes and peas look an attractive option to some farmers because they are not subject to quotas or levies imposed in Brussels. In the EC there is already a free market in vegetables, so producers will not face the upheaval expected in other sectors following the proposed withdrawal of subsidies when the Common Agricultural Policy is reformed.

Existing vegetable producers, however, warn that new-comers could exhaust limited water supplies and lead to cut-throat competition.

Other farmers, meanwhile, have diversified into livestock which can be farmed extensively and at low cost. East Anglia is not an area well-known for sheep but there are more than 28,000 in west Norfolk alone, and sales at the livestock market in King's Lynn have grown fivefold in recent years.

"We are now selling about 1,000 sheep a week," says Mr Barry Hawkins of Lynn Market. Pig sales, he adds, have doubled in the past year.

Livestock farms, however, are relatively unimportant to the west Norfolk economy compared with crop production. There are 40 farms relying on sheep, cattle, pigs and poultry, compared with more than 450 holdings involved in general cropping and vegetables, according to figures from the Ministry of Agriculture.

It is these farmers who are facing serious problems caused by water shortages. The National Farmers' Union, which represents about 2,000 members in Norfolk, is anxious to reach an agreement with the NRA over irrigation which will safeguard production. The union is proposing a

deal in which the region will be divided into designated areas where farmers agree to use only half the water allowed to them under their irrigation licences. In return, the NRA has been asked to guarantee no restrictions on that reduced supply.

Although one group of west Norfolk farmers has agreed such a deal in the River Lark catchment area, NRA officials remain dubious about whether there will be many other agreements.

If the drought continues, the NRA says it will have no alternative but to impose restrictions on supplies, and officials warn: "If farmers ignore restrictions, they will be prosecuted."

In the worst scenario, producers who cannot afford to install reservoirs and then flout NRA limits in order to save their crops could face heavy fines and may have to abandon the business altogether. That threat has already encouraged some farms to amalgamate in a bid to cut overheads by sharing equipment and resources.

The drought has left farmers facing increased costs and the likelihood of produce which cannot command top prices. The future for those who are not able to farm on an industrial scale may be bleak.

Mr John Riley, regional director for the NFU in East Anglia, says: "We know that we're going to be worse off. Farmers will have to accept further losses or combine or sell."

Tim Burt

THE PORT of King's Lynn has weathered the recession better than many. It has just received the biggest single investment for 100 years and its diversity and versatility have been the key to the port's ability to weather the economic storm.

In April a new £3m quay was opened by Associated British Ports, owner of the port, and by August a £1m Leibherr crane from Austria should be in place. For Mr David George, manager, these are tangible signs of his company's confidence in the port's future.

Port traffic totalled just over 1m tonnes in 1991 compared with 1.35m tonnes in 1987.

"Even though there's a recession we've held our own. It was very nice to get above the 1m mark in a very difficult year, and this year we've got off to a good start," Mr George says. "The strength of the port is that we can handle anything and are blessed with lots of equipment."

The new Riverside Quay, built entirely with ABP money, was constructed on schedule by May Gurney and Co of Norfolk. ABP has firm belief in investing for general infrastructure development.

"Trade has grown steadily over the last 40 years, the east coast is building traffic levels and we want to keep our share."

ABP also spent £500,000 on a new transit shed last year. "Because the new berth is on the river, we can bring up ships which cannot come through the lock which has a maximum beam of 13.8m. That's all right for most short sea ships, but the dock can only accommodate a 3,000-tonne cargo. On the river, beam will be no problem, ships can go to a better length and we can go up to 5,000 tonnes cargo, depending on the tides. It's a big leap forward. Our strength is being well-placed in the Wash, central for business -



Fishing boats in the tidal harbour at King's Lynn

### The port of King's Lynn

## Versatility the key to success

this is one of the reasons we have the confidence to invest; we want our share of the next 10 to 20 years' growth."

Unusually, ABP retained control of stewarding at the port after the abolition of the dock labour scheme in 1989, when it cut the number of employees from 120 to 53: all are on personal contract, industrial relations are good and productivity has improved. The port exports almost

exclusively grain and sugar beet pellets. Imports are fertiliser and animal feed, which go largely to the agricultural areas of West Norfolk and Cambridgeshire, timber and steel for the Midlands and, crucially, 18,000 Skoda cars a year. The cars, and Zetor tractors, are brought in by Washbay Line, a customer of the port for 40 years, and conveyed to a Skoda factory one mile up the road where they are finished

before distribution to dealers. Washbay Line runs a twice weekly service to Hamburg and its two adaptable vessels were purpose-built for King's Lynn's docks.

The general trading areas for the port are the former Soviet Union and various Baltic states, through Denmark, Belgium, the Netherlands, northern France and Spain. Steel comes from Italy, fertiliser from Africa, timber from Archangel in Russia, and the new quay is expected to expand this business.

The versatility of the port, Mr George says, has proved vital to its growth - "the strength of the place is that we can handle anything - we're blessed with lots of equipment and we are not dependent on heavy manufacturing, we are a one voyage charter port."

ABP owns 88 acres of land and would like a lot more, but it is constrained by the geography of the port. There is only three acres spare at the end of the dock, but any further letting would have to be to a port-related activity.

Mr George sees ample room for improvement in the road transport links to King's Lynn, particularly along the east-west corridor - "the case is proved, but investment in roads comes from the south and is not scheduled to reach us until the year 2000."

Diversity is the keyword for Mr John Latus who runs Anglia Shipping, which he sold to Anglian Agricultural Merchants in 1987 and bought back in November 1991. A shipping agent who handles chartering, haulage and warehousing, he takes pride in the company's ability to do anything and everything.

"Business has been good in the last three years because our diversity has enabled us to swap from one thing to another without difficulty. The

new quay will open up business opportunities for us."

Anglia Shipping also brings in timber from Scandinavia and Russia, a seasonal trade which usually starts in March but which this year has been delayed until May because of Russia's foreign currency shortage. Mr Latus is confident that trade with the former Soviet Union will survive despite its present problems.

A 70-strong Fisher Fleet operates out of the port, all shrimpers, mussel and cockle droghers, employing about 300 men in what has become a rapidly changing industry as directives from the EC have forced through new working practices.

Mr Chris Beach, deputy clerk of the Eastern Sea Fisheries Joint Committee, with which all the boats are registered, has witnessed the change - "fishing practices had hardly changed from medieval times to about 10 years ago, but now, with the advent of new shellfish hygiene rules from Brussels, the UK has had to come up to date."

"Fishermen used to go shrimping twice a week, cook them at sea and negotiate with the customer - now they're tied to a processing plant but it will take all the shrimps he can get, so it has meant an end to boom or bust for the fleet."

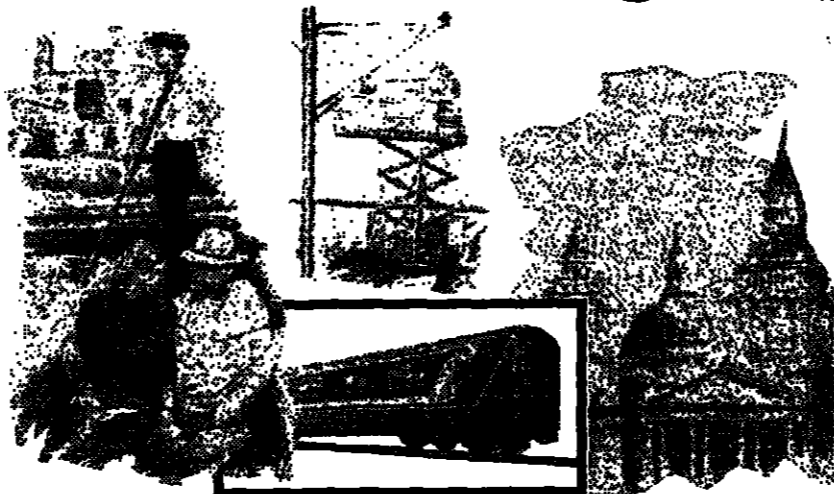
The 12-mile channel into the Wash and the pilotage for ships coming into the dock are controlled by the King's Lynn Conservancy Board, under the steady hand of Mr Maurice Kiddle, general manager and clerk. The board also owns South Quay, leased by King's Lynn Silos, which last year exported 100,000 tonnes of grain.

Report by Annie Wilson. Pictures in this survey are by Glyn Genin

### West Anglia

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## FT LAW REPORTS

## Land to be sold at market price

**FREEDMAN & OTHERS v BRITISH RAILWAYS BOARD AND ANOTHER**  
**CHURCH COMMISSIONERS FOR ENGLAND v BRITISH RAILWAYS BOARD AND ANOTHER**  
 Court of Appeal:  
 Lord Justice Nourse, Lord Justice Taylor, Lord Justice Stuart-Smith:  
 April 9 1992.

BRITISH RAIL may sell superfluous lands at market value back to the successors of the vendors from whom it was compulsorily purchased, in that the statutory provisions giving the vendors a right of pre-emption at the original purchase price have been repealed.

The Court of Appeal so held when allowing an appeal by the defendants, British Railways Board and National Carriers Ltd, from Mr Justice Hoffmann's decision (FT, March 30 1990) in two actions, that they must sell derelict land back to the Special Trustees for Saint Bartholemew's Hospital and the Church Commissioners for England as the successors of those from whom they acquired it, for the original price.

LORD JUSTICE NOURSE said that 125 acres of derelict land north of King's Cross Station were to form the terminus of the Channel Tunnel rail link and a large commercial development. They were compulsorily acquired pursuant to the Great Northern Railway Act 1848, which empowered the company of that name to build the railway between London and York.

The land had since passed into ownership of the British Railways Board and National Carriers Ltd.

Mr Justice Hoffmann on preliminary issues in two actions held that sections 57 and 102 of the 1848 Act (which he held had not been repealed) enabled the Special Trustees and the Church Commissioners, as successors of those from whom parts of the land were compulsorily acquired, to buy back three areas amounting to 52 acres ("the yellow land", "the red land" and "the green land") for the prices at which they were originally acquired.

There was a fourth area of eight acres ("the blue land"),

which was acquired by agreement. The judge held there was no right to buy back the blue land.

The yellow, the red and the blue land was acquired from predecessors of the Special Trustees, and the green land from predecessors of the Church Commissioners.

The whole of the yellow, most of the red, parts of the green and the whole of the blue land was owned by British Rail. The remainder of the red and the green land was owned by National Carriers.

British Rail and National Carriers appealed against Mr Justice Hoffmann's decision on the yellow, red and green land. They contended that sections 57 and 102 did not have the effect he had attributed to them, or alternatively that they had been repealed. The Special Trustees cross-appealed against his decision on the blue land.

A "code" of provisions dealing with superfluous land in sections 127 to 132 of the Land Clauses Consolidation Act 1845 was incorporated into the 1848 Act.

Section 127 provided that the company should sell all superfluous lands within 10 years after expiration of the statutory period for completion of the works. By section 128, it first had to offer them to the person entitled to the lands "from which the same were originally severed".

Section 57 of the 1848 Act, which applied to the yellow and the red land acquired from the hospital, provided that if "at any time or times" after completion of the railway any of the land was not used and required for the purposes for which the company was incorporated, "the company shall offer such land to the governors at a sum not exceeding the original price".

British Rail and National Carriers argued that "at any time or times" in section 57 must, by virtue of sections 127 and 128 of the code, be read as meaning "at any time or times" within 10 years after the expiration of the time limited for completion of the works. They said section 57 was merely a gloss on the code which varied it in certain respects.

Section 57 could be free from the time limit and still be a gloss on the code.

It was impossible to say that

the time limit was incorporated. In the context of the section as a whole it would be repugnant to common sense to say that "at any time or times" meant "at any time or times" within 10 years after the expiration of the time limited by this Act for the completion of the works.

Mr Justice Hoffmann's conclusion on section 57 was correct. The section applied with-out any time limit to the yellow and the red land. Unless repealed by subsequent legislation, the hospital's right of pre-emption still existed. The same applied to section 102.

As to the blue land, the power to acquire it arose under section 45 of the Railway Clauses Consolidation Act, which authorised the acquisition of additional land by agreement.

The blue land was conveyed to the hospital on January 17 1851. The conveyance provided that if at any time after three years from that date any part of the land "shall not be used and required" for formation and completion of the railway, the company should give the hospital the right of pre-emption at the original price.

The hospital contended that that provision gave it a right equivalent to that given by section 102.

The judge rightly rejected that contention on the ground that once the land had been "used and required" the event which gave rise to the right could never occur.

The remaining question was whether sections 57 and 102 had been repealed.

Section 43 of the London and North Eastern Railway Act 1923 provided that the company should not be required to sell and dispose of any lands which were not required for the purposes of the undertaking.

Section 9 of the London and North Eastern Railway Act 1935 provided that the company should have power to sell any land which was not being used for the purposes of its undertaking.

Section 59 of the British Transport Commission Act 1949 provided that sections 127 to 131 of the 1848 Act "and any other provisions to the same or similar effect" incorporated in any enactment relating to British Transport's undertaking should not apply to land

acquired under that enactment.

Mr Justice Hoffmann concluded that none of those three enactments had repealed section 57 or section 102.

He was right on section 43 of the 1935 Act and section 9(1) of the 1935 Act, under which there could only have been an implied repeal. Neither of them carried any implication sufficient to deprive the hospital and the Commissioners of the valuable rights given by sections 57 and 102.

In section 59(1) of the 1949 Act there was no implied repeal.

The question whether section 59(1) had expressly repealed sections 57 and 102 depended on whether sections 57 and 102 were provisions to the "similar effect" as the provisions of the code.

When one described one thing as similar to another, one meant something which so resembled the other as to make it either pointless or impracticable to differentiate between them for the purposes for which the description was needed.

The purpose of section 59(1) was to cancel the effect of the code and other provisions to the same effect. The effect of the code was to enable others, by rights of pre-emption, to acquire from British Rail or its predecessors superfluous land no longer required for railway purposes.

In the terms of the definition suggested, the effect of both section 57 and section 102 so resembled the effect of the code as to make it pointless to differentiate between them.

Sections 57 and 102 were effectively repealed by section 59(1) of the 1949 Act. On that ground only the appeals should be allowed. Their Lordships agreed.

For the hospital: Edward Nugee QC and Terence Eitherton (Wildlife Scaple)

For the Church: David Lowe QC and Charles Turnbull (Wallace & Morris)

For British Rail: Gavin Lightman QC, John Whitaker and Bridget Lucas (Nabarro Nathanson)

For National Carriers: Robert Reid QC and Simon Berry QC (McKenna & Co)

Rachel Davies

Barrister

## PEOPLE

## Mason moves to Balfour Beatty

Peter Mason has been appointed to replace David Cawthra as chief executive of Balfour Beatty, the construction arm of BICC engineering group.

Cawthra stunned the construction industry last September when he stood down from Balfour, one of the country's biggest contractors, to become chief executive of Miller Group, a privately owned construction company based in Edinburgh.

Mason was formerly executive chairman of Norwest Holst, the British construction group in which Compagnie Générale des Eaux acquired a 51 per cent stake in January



1989. Norwest last year generated a pre-tax profit of £3.6m on a turnover of £338.52m. Balfour

■ Albert Harrison, deputy md of ALLIED COLLOIDS GROUP, has died.

■ John Morse, formerly project director of BP Chemicals, has joined HONEYWELL'S UK industrial automation and controls division as director of engineering services.

■ Paul Harkin, previously sales and marketing director, of Microdot Aerospace, has been appointed sales director (Aerospace & Defence) of BENTLEY SYSTEMS, a subsidiary of TT Group.

■ Patrick Scott, former md of Satellite Information Services in succession to Christopher Stoddart.

■ Darryl Hughes, formerly director in charge of Rascal-Decca Service, has been appointed md of CHUBB ALARMS, part of Rascal

Electronics.

■ Peter Fernighough is resigning from WYKO GROUP but becomes non-executive chairman of its UK distribution division.

■ Grant Findlay, previously group finance director of Continuous Stationery, has been appointed group finance director of TIP EUROPE.

## Departures

■ Raymond Palmer has retired and Roger Slingsby resigned from HC SLINGSBY.

■ Alan Clements has retired from THE SMALLER COMPANIES INVESTMENT TRUST.

■ Alan Boyd has resigned from TVS ENTERTAINMENT.

■ John Giannopoulos has retired from PATERSON ZOCCHONIS.

■ Richard Smith has retired

Beatty by comparison made a pre-tax profit of £37.7m on a turnover of £1.9bn.

Mason, now 45, graduated from Glasgow University in 1968 with a degree in civil engineering to join Sir Robert McAlpine construction group. Between 1970 and 1976 he was a contracts manager with Faircloughs (now part of Amec) before becoming construction director of Shanks & McEwan.

He joined Norwest Holst in 1980 and became chief executive in 1985 shortly before the company was acquired in a management buy-out. He became executive chairman in 1991 following the takeover by CGE.

## Constructive careers

■ British Land has appointed James Ritblat, the younger son of its founder John Ritblat, to the board of British Land Corporation, its principal management and operating subsidiary. James Ritblat, who is concerned with property acquisitions, worked at Morgan Grenfell Laurie, a surveying firm, before joining British Land. British Land says his new appointment reflects his role as a senior executive in the company.

Nick Ritblat, his elder brother, is also on the board of British Land Corporation. He became a director of the parent company last September.

■ Alan Thompson has been appointed md of HOLROYD CONSTRUCTION; he moves from Monk Construction.



■ Paul Raymond, (above) previously md of Folkard and Hayward, is appointed director of CHESTERTONS RESIDENTIAL, part of the Woolwich Building Society.

■ Mark Chatham is appointed a director of COUNTRYSIDE COMMERCIAL.

■ Jan Versaart is appointed a non-executive director and

## Civil servant joins Anglian Water

Dinah Nichols, one of the senior civil servants responsible for the flotation of the water industry in England and Wales over two years ago, has joined Anglian Water, one of the 10 privatised companies, as a non-executive director.

Nichols, 43, was head of the water directorate at the environment department in the run-up to flotation. She played a leading role in what was one of the most contentious and complex of all privatisations, and negotiated on water standards with the European Commission.

"We are proud to have her with us because of her wide

experience of the industry," says Roger Dickinson, Anglian's company secretary.

There will be no conflict of interest because the department has been restructured following privatisation. Nichols is currently a deputy secretary in the environment department responsible for property holdings, construction and central support services. She has also been a director of a subsidiary of John Laing, the construction company.

In the run-up to privatisation, when some of the former authorities were very hostile to ministers and environment department civil servants,

Anglian Water, under the chairmanship of Bernard Henderson, took a more conciliatory stance. The close contacts with senior officials have continued.

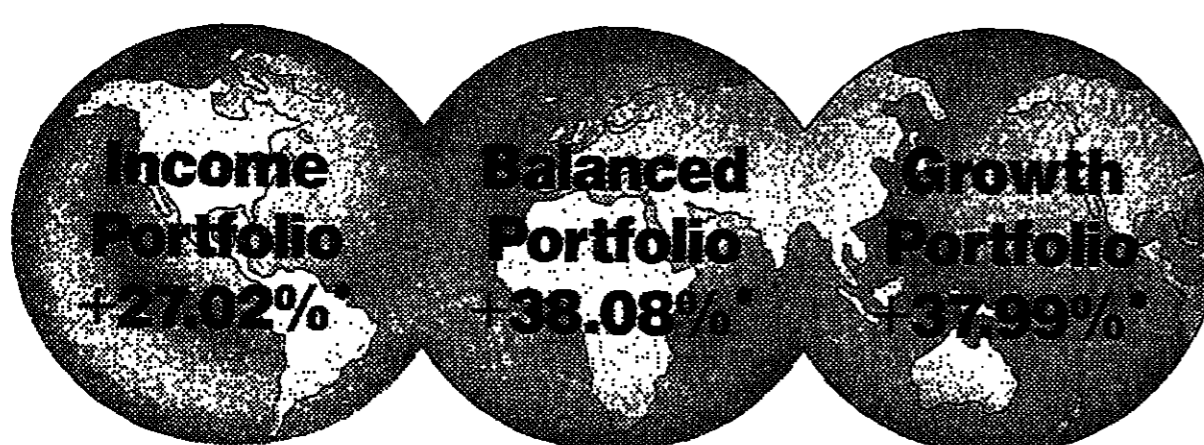
The company also announced the appointment of Jim Adams as an executive board member. Adams, 52, has been with Anglian for 18 years and is currently managing director of Anglian Water Engineering and Business Systems. The subsidiary is responsible for computer systems and for assessing projects on behalf of the core businesses of water supply and sewage treatment and disposal.



Nicolas de Ronde Bresser (above) non-executive chairman of EDMUND NUTTALL, an operating company of Hollandsche Beton Groep, on the retirement of Jacob Emitz.

■ John King, an assistant general manager at GRE, has joined the board of HAMBRO COUNTRYWIDE, and David

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Tennstedt's  
Debussy

Klaus Tennstedt, a conductor of naked artistic integrity and emotional intensity, is that rare beast, the genuinely inspired interpreter of the great Austro-German symphonic masterpieces. His Royal Festival Hall ventures into other repertoires and musical languages have been scarce, and less imbued with the fiery authority that marks, say, his Beethoven, Bruckner or Mahler with the London Philharmonic. I recall, for instance, a heartless LPO Verdi Requiem that sounded as if it were a recording of a rehearsal.

On Sunday at the Festival Hall, the same could be said of his encounters with Debussy. The LPO gave us the *Three Nocturnes* in the first half and *L'Après-midi d'un faune* in the second (followed by a Stravinsky *Firebird Suite* brash but full of life). The lack of Debussy's detachment and distance was comprehensive. The phrasing of "Nocturnes" were lush, but devoid of technical ventilation; "Fêtes", with an unhappy slowing of its central procession, was noisy, luridly impetuous; and "Sirenes", with an unaccountably spottily and often ill-timed contingent of LPO choir sopranos, mandered. Tennstedt seemed unable to gain imaginative entrance into the Debussy sound-world; in *L'Après-midi*, linear distinctness was continually sacrificed to an alien languorous warmth.

Because these were rawly honest performances, "personal" and unvarnished, searchingly undertaken and unstintingly delivered, their very wrong-headedness proved fascinating. It was altogether a peculiar concert. As the last act in the orchestra's current series of loose tributes to Diaghilev, it began with Shura Cherkassky playing Schumann's *Carnaval*: after a rocky start, he made the piano speak and sing with so much echt-Cherkasskian felicitous wit, idiosyncratic delicacy and implausible brilliance that it felt a cruel deprivation not to be spending the rest of the evening in his company.

In the same hall the following evening, the BBC Symphony Orchestra under Andrew Davis gave excellent support to a Schumann pianist of a very different kind. This was Imogen Cooper, whose account of the *Piano Concerto* was wonderfully full of gentle, inward-turned imaginative perceptions. Miss Cooper caught the "domestic" side of the invention with unflinching aptness, penetrated its poetic nooks and crannies with quiet eloquence. I have not heard this pianist for a few years; in that time she appears to have blossomed as an artist.

Earlier, Davis and his orchestra had poured their plentiful supplies of energy and enthusiasm into the first performance of Philip Grange's *Focus and the 30-minute orchestral fantasy* in three linked movements designed as an easy command of large forces, evident care in the linking and cross-referencing of ideas, and a disconcerting shortage of identifying, clinching personality. Grange, who came to prominence at the start of the 1980s with a number of striking compositions for small forces, seemed here the retailer of last another enormous "modern orchestral showpiece".

Max Loppert

## Television/Christopher Dunkley

## Drama strong on flashback

It is remarkable how often television dramas come along in pairs: two set in India, two with eccentric policemen as their main characters. Last night's *Anglo-Saxon Attitudes* on ITV was the second within three days to begin its opening episode with the digging up of a skull, to feature Douglas Hodge (who played Declan in *Capital City*) in one of the main roles, and to use flashback not merely as a routine technique but as a primary structural element. The other was *A Fatal Inversion* which began on BBC1 on Sunday.

If you watched *Anglo-Saxon Attitudes* last night you will presumably need little urging to watch the other two parts. If you missed it, find someone with a cassette and bribe them if necessary to lend it so that you can catch up before next week's episode. This is one of those rare television productions in which everything works well: writing, acting, direction, locations, even the period detail which, refreshingly, is not rammed under our noses.

I cannot be so sure in the case of *A Fatal Inversion*, having seen only the first of the three episodes, but this, being a mystery story written by Ruth Rendell under her "Barbara Vine" pseudonym, is if anything even more compelling in its narrative tension. Having seen the hints that were set running in the opening episode it would be unthinkable to miss the other two. Whether you consider it fortunate to have two such excellent serials appearing simultaneously, or irritating not to have them better spaced out, presumably depends upon your attitude: do you see a glass as half full or half empty?

Since *A Fatal Inversion* is a thriller it is unlikely that there will be much talk about whether Sandy Welch's adaptation takes liberties

with the original but, given Angus Wilson's reputation and especially the increase in regard since his death, we can expect those who would like to be thought "literary" to start squawking as usual about lack of faithfulness in Andrew Davies' adaptation of *Anglo-Saxon Attitudes*. It is nonsense of course.

Does anyone care that Laurence changed the Montagues and Capulets into Jets and Sharks for *West Side Story*? If so, what do they say about the liberties Shakespeare took when he pinched the story from Brooke's *Tragicall History Of Romulus And Juliet*? Or the way that Brooke played fast and loose in adapting from Boccaccio's *Decamerone* the casualness when he lifted the story from Boccaccio's "Novelle"?

What we have in *Anglo-Saxon Attitudes*, regardless of its literary antecedents, is splendid television, full of solidly three dimensional characters, inhabiting a wholly believable world, with social, political, sexual and historical comment whizzing off like sparks from a Catherine wheel. Set in the 1950s, but with its plot originating in an archaeological dig in 1912, it is essentially a comedy of manners largely concerned with the idiosyncrasies and hypocrisies of the English middle classes.

Davies, now established as one of the best writers for the medium, either of his own work (*A Very Peculiar Practice*) or of adaptations from others (most recently Amla's *Old Devils*) has, of course, used techniques which rarely succeed on the printed page. As any true master of television (for example Dennis Potter) knows, you can move through time and space more easily in this medium than in print.

Davies toggles effortlessly between 1912 and 1950 and, having established Gerald Middleton as both a young man (Hodge) and older man (Richard Johnson with a quiet and

controlled but utterly telling performance), he occasionally inserts the older version of Middleton into the flashbacks when we are, naturally, expecting the younger. The effect is a peculiarly powerful condensation of youth and age into a single life.

Because this serial tells the story of two generations of an English middle class family with one important in-comer from Europe, repeatedly uses flashback, and contains some explicit sex, it is difficult to avoid comparisons with *The Camomile Lawn*, but *Anglo-Saxon Attitudes* surely comes out well ahead. In *The Camomile Lawn* incident followed incident as one link in a chain follows another; the sex scenes, for instance, were quite fun but only loosely connected to other events and scarcely central to the plot.

But in *Anglo-Saxon Attitudes* it is vital that we appreciate the sexual passion between the young Gerald and Dollie if we are to understand the subsequent void at the centre of Gerald's life and the failure of his relationship with wife and family. In this drama the development of plot and character is more like the construction of a building, with the ground floor depending on the foundations, the first floor on the ground floor, and so on.

It is honest, comic, enlightening and entertaining, so self righteous lectures about television failing to stick to every last detail in the book should be seen for what they are: yet another example of the widespread desire to appear superior to television. No doubt there will be fewer squeaks of concern over *A Fatal Inversion* because less is expected of a thriller and there are fewer brownie points to be gained from an officious defence of the book.

Yet the opening episode suggests that we have here a very superior thriller indeed. This time the flashbacks are across only 12 years, and



Douglas Hodge and Tara Fitzgerald in 'Anglo-Saxon Attitudes'

the evidence suggests that Hodge will be giving his best television performance to date as the young father and successful professional looking back to a teenage summer that began idyllically in the big country house which he inherited that year.

In the opening episode director Tim Fywell captured that quality of youth which sometimes seems like innocence, sometimes like idiosyncrasy, sometimes like mere inexperience: it is manifest in the unspoken assumption that life is endless and that there is consequently infinite time to

characteristic which few of us are lucky enough to sustain beyond the age of about 20 and it is not the sort of thing which is easy to convey in a television drama, yet here it seeps out of every frame. The tension arose from the stark contrast between that idyllic and the suspicions aroused by the discovery of the human remains in the grounds of the country house. What on earth happened that summer, and who? It would take a very cold fish not to tune in next week.

Saturday brought the opening episodes of two new four-part drama

series. *The Nightmare Years* on Channel 4 and *Frankie's House* on ITV. Each is about a young man newly arrived in a foreign country dominated by its military forces, in each case the man works for a news agency, in each case, as we know from history, a major war is in the offing, and both stories are about real people. In *The Nightmare Years* American William Shirer has just arrived in Berlin in 1931, and in *Frankie's House* Englishman Tim Page has just arrived in Saigon in 1964.

## Theatre

## A Slip of the Tongue/Leave Taking

The programme for *A Slip of the Tongue* contains another of those chronologies of events in eastern Europe from the late 1980s onwards with which London theatre-goers must by now be familiar. There is a very odd entry, however, for December 1989. It reads simply: "Romania - Vasile Havel elected President".

Yet perhaps that is a deliberate slip of the pen. Dusty Hughes's play is based on a character from Czechoslovakia, where Václav Havel was indeed elected President, but the background is more Romanian and at times a socialist Ruritania seems not out of place.

Dominik Tataraka, the hero (of sorts), was a Slovak writer who was repeatedly imprisoned or internally exiled by the regime. As such, he had something in common with Havel. Yet there the similarity ends. In the play, Tataraka becomes Dominik Tantra. According to the script, he was constantly visited in his enforced rural retreat by a stream of women students, all of them claiming to admire his work. All of them bring him a Buddha as a mark of respect - by the start of the second act, there are at least six Buddha figures in his cupboard.

The women are also informers, sent by the regime. Tantra deals with them easily enough by seducing them. It is when one of them tells him that the Berlin Wall has come down that his confidence ebbs and he claims to have become impotent. Thereafter it is the women who have to make the first move in the seduction process. He does not wish to become president of the new democracy and prefers to hup off to the Frankfurt book fair. To his credit he does not want an inquest into the past. The real Tataraka died in 1989.

The chief interest in this production is that it is by the Steppenwolf Theatre Company of Chicago with John Malkovich, one of its founding members, playing Tantra. It bothers me slightly that on the evidence of this piece I cannot see why the company is so widely admired. Malkovich gives a perfectly pleasant performance and has an attractively modulated voice. The women admirers are adequate, but there is not much to distinguish between them. In short, there are no fireworks.

Perhaps the weakness lies in the text. One is a little weary by now of hearing how eastern Europe admired America for its jazz and Coca Cola and even the joke of Tantra posing while undressing one of the women to admire the Japanese slip on her skirt is not entirely new. *A Slip of the Tongue* hovers on the edge, but it is never clear to which genre it is intended to belong. I suspect that both the play and the Steppenwolf Company would be much better on a smaller stage.

## Malcolm Rutherford

Winsome Pinckney's *Leave Taking*, which won the 1991 George Devine Award, is a play about the tension between Caribbean and black British lifestyle. This has become an established tradition in British culture, with Jean Rhys's *Let Them Call It Jazz* first among many. *Leave Taking* mines a rich dramatic vein: generations of black British at variance in one family.

Enid left Jamaica as a young woman, and brought up her daughters, Del and Viv, in England. Both daughters have integrated, but by taking on the trappings of mainstream British culture, the other by

succeeding at school. But when Enid visits an Obeah-woman for haruspical guidance, she realises she has repressed her roots in order to fit in. A family friend, "uncle Brod", the unmissable voice of Jamaica, reinforces her memories of home.

The new generation has a wider choice. While Enid lists the sacrifices she made for her children, her daughter taunts: "I'm gonna have everything you wanted but were too frightened to enjoy." The play ends with a fragile compromise as new black British reaches out to the old Jamaican.

The wonderful design (Trudy Marklew) conveys urban clutter and Caribbean space, giving visual reality to the forces which shape the characters. Large windows frame billowing curtains form an angle in which a living-room set is crammed. The acting maintains a high energy, and the action should gather momentum throughout the play's run.

*Leave Taking* presents the first all-black cast on stage at the Belgrade main house. This is surprising in a theatre with a Black Arts Events office, but understandable in a city committed to multicultural theatre, although black culture itself embraces great diversity. *Leave Taking* figures in a series Black culture and arts events: Martin Luther King was commemorated on April 24; Bob Marley is celebrated in an exhibition at the Polytechnic next month.

Andrew St George

Shaftesbury Theatre, Limited See (071) 779 5389  
The Belgrade Theatre until May 23 (0203 553055)

## A Washington/Dublin Messiah

I would hardly take space to review a *Messiah* - even a *Messiah* of superior quality - had not this one, among many other points of interest, brought forward a remarkable mezzo, with the most alluring new voice I've heard this season. She is Denyce Graves, Washington-born, 28 years old, a graduate of the Houston Opera Studio. I had heard of her - she has sung a clutch of *Carmens* in America and Europe - but I didn't know she was so good. My colleague Joseph McClellan, the critic of the *Washington Post*, who had heard her in Washington as Maddalena and in Elgar's *The Light of Life*, told me that every time he hears her she has taken a great leap forward.

Washington celebrated the 250th anniversary of *Messiah* with a reconstruction of the original 1742 Dublin text. Miss Graves played *My Cyprian* (but also comic) actress entrusted with "He shall feed his flock" (the whole of it, not shared with the soprano, as it was shared at Covent Garden the following year, between Mrs Cibber and Kitty Clive, a Lucy and a Polly from *The Beggar's Opera*). "He was despised," and "If God be for us". When Mrs Cibber died, Garrick said, "tragedy died with her." She was not a virtuous vocalist, but Burney said "by perfect conception of the words, she often penetrated the heart when others, with infinitely greater skill, could only reach the ear."

In a splash of luxury casting, America's two leading counter-tenors, Drew Minter and Jeffrey Gall, played William Lamb and Joseph Ward, the counter-tenors Handel found in the Dublin cathedral choir, the first assigned an aria ("O thou that tellest"), the other a duet with the tenor, and the two of them briefly entwined in a duet set-

ting of "How beautiful are the feet". Curious to see them sitting by - appraising, admiring - during Mrs Cibber's songs, which both of them, in other versions of *Messiah*, have often sung with distinction.

Handel had seven soloists in Dublin. In Washington, Benita Valente was his soprano (Signora Avoglio), Curtis Rayman was his tenor (John Bayler) and David Arnold doubled as the two basses (John Hill and John Mason). They were all on peak form, singing lightly and clearly, purely tuned, singing on the words, without pushing. The Smithsonian Concerto Grosso (in this Dublin version just strings, with trumpets and drums in a few numbers) played well.

The conductor was Paul Traver, and the choir was his University of Maryland Chorus, which has been the glory year after year, of the Maryland Handel Festival - fluent, athletic, purely tuned, verbally acute. (The recession and the starving of funds to education last year broke off the festival's progress through the oratorios; but it seems that it may resume in October with *Hercules*.) Traver is a Handel conductor who can combine lightness and grace with earnestness and majesty. This *Messiah* moved surely.

And the "Dublin version" moves surely, too. As a generalisation, the first version of any Handel work is greater than the revivals where he adjusted the music to accommodate a new cast. The Maryland oratorio performances use first version as base text. *Messiah* is perhaps an exception; the 4/4 "Rejoice", for example, is surely an improvement on Dublin's 12/8 version. But the sequence of soloists in the Dublin *Messiah* - the delaying of the

soprano's and of Mrs Cibber's "entrance arias" - is excellently dramatic.

Denyce Graves, in Mrs Cibber's songs, displayed a voice suggesting that, to put it simply, America has acquired a new Kathleen Ferrier, a singer whose tones run from the depths to the peaks - unforced, unpushed - in tones that are beautiful and moving, and one who communicates the sense of the words that she sings. A biographical note in the programme, however, predicted a dull immediate future: merely conventional, commercial stage appearances as Carmen and as Delilah here, there, and everywhere. She is a more important singer than that I look forward to hearing her as the Angel in *Gratia*, in the *Matthew Passion*, as Gluck's Orpheus, and in the new works that our living composers, once they have heard her, will surely be inspired to write for her.

This *Messiah* was a part of Kennedy Center's Tribute to Germany, supported by the German government and sponsored by Robert Bosch, Daimler-Benz, the Deutsche Bank, Lufthansa, Mannesmann, Miles (a Pittsburgh subsidiary of Bayer), Siemens, and Thyssen, along with "a generous grant" from Du Pont and "gifts" from various American companies, foundations, and individuals. Handel was born in Germany; the Stuttgart Ballet (Marcia Haydeé made her American farewell the day before this *Messiah*) was another part of the tribute. The patterns of patronage have changed since Handel's day. Jim Wolfensohn, the chairman of Kennedy Center, has evidently mastered them.

Andrew Porter

INTERNATIONAL  
ARTS  
GUIDE  
TODAY'S EVENTS

## AMSTERDAM

Concertgebouw 20.15 The Royal Concertgebouw Orchestra with Schubert's Fifth and Ninth Symphonies. Fri: Peter Schreier sings Schubert. Sat afternoon: The Rotterdam Philharmonic. Sat evening and Sun afternoon: The Netherlands Philharmonic Orchestra (6716 345). Muziektheater 20.15 Parsons Dance Company presents six choreographies by Dow and Sat. Fri: La Damnation de Faust (8255 455).

## BONN

Oper 20.00 Thomas Fulton conducts Nicholas Joel's new production of Simon Boccanegra, also Sat (773687). Tomorrow in Beethovenhalle: Sixten Ehrling conducts works by Schubert, Martinu and Tchaikovsky (773686).

## FLORENCE

MAGGIO MUSICALE  
Tonight's concert at the Teatro

Comunale, conducted by Zoltan Pesko, is devoted to the music of Xenakis, with Irvine Arditi soloist in the Violin Concerto (1991). Tomorrow and Fri: final performances of Giorgio Battistelli's new opera *Toxemia*. Sat: Elgar Howarth conducts a Ligeti programme, including two world premieres. Mon: piano recital by Stanislav Bunin. Fri, Sat, Sun, Tues at Teatro della Pergola: Happy Birthday Rossini, new ballet by Karole Armitage. The festival continues until July 1 (277 9236).

## FRANKFURT

Alte Oper 20.00 Santana in concert. Tomorrow: Ken Hill's musical *The Phantom of the Opera*. Sat: Alfred Brendel plays Beethoven. Sun morning: Lieder recital by Hermann Prey. Sun evening: David Shanon conducts the Rheinland Pfalz State Philharmonic (1340 400). Opernhaus 19.30 Così fan tutte, also Sun. Tomorrow: William Forsythe's ballet *Slingeland*. Sat: La clemenza di Tito. Sat in Schauspielhaus: Forsythe's ballet *Limb's Theorem* (236061). English Theater Kaiserstrasse 20.00 Fences, Pulitzer Prize-winning drama by contemporary black American playwright August Wilson. Daily except Mon till July 4 (2423 1820).

## LONDON

Coliseum 19.30 Martin André conducts Julia Hollander's staging of John Butler's new Euripides opera *The Bacchae*,

also Sat. Tomorrow: Don Carlo. Fri: *Madama Butterfly* (071-836 3181).

## NEW YORK

THEATRE  
● Guys and Dolls: a perfect production of Frank Loesser's musical (Martin Beck, 302 West 45th St, 239 6200).  
● Jean Cocteau Repertory: Samuel Beckett's *Endgame* alternating with a triple bill of one-act plays by Vaclav Havel (*Boulevard Lane Theatre*, 330 Bowery at Bond St, 677 0060).  
● The End of the Day: Jon Robin Baitz's new play about an expatriate British physician trying to find his moral centre in California. Closes May 24 (Playwrights Horizons, 416 West 42nd St, 279 4200).  
● Conversations With My Mother: Herb Gardner's bitter-sweet memory play about a Lower East Side bar-keeper, his two sons and the patrons of his tavern (Royale, 242 West 45th St, 289 8200).  
● Jake's Women: Alan Alda at his best in the new Neil Simon play about an ageing writer coming to terms with the women in his life, past and present (Neil Simon, 252 West 52nd St, 307 4100).  
● Ticketmaster answers inquiries and sells tickets for Broadway shows (307 4100) and rock/pop concerts (307 7171).

## PARIS

DANCE  
Patisa Garnier 19.30 Ballet de

l'Opéra de Paris in new choreographies by Odile Duboc and Daniel Larrieu. Daily till Sun (4017 3535).  
Théâtre de la Ville 20.30 Carmen, choreography by Yvonne Rainer, with music by Georges Bizet. Fri and Sat: Takacs Quartet (4274 2277).

MUSIC  
Opéra Bastille 19.30 Michael Schoenwandt conducts a revival of David Pountney's Los Angeles production of *Elektra*, with Gwyneth Jones, Leonie Rysaneek and Sabine Hass. Runs till May 29, next performance on Sat (4001 1818).  
Opéra Comique 19.30 Gala opening of Johann Strauss festival with Der Zigeunerbaron, featuring orchestra, chorus and soloists from Vienna. Daily except Mon till May 23 (4286 8865).  
Théâtre des Champs-Élysées 20.30 Sigiswald Kulkar conducts La Petite Bande in two Haydn symphonies and Mozart's Clarinet Concerto (Antony Pay). Tomorrow: Orchestra National de France (4720 3637).

## PRAGUE

SPRING FESTIVAL  
Tonight's performance of Smetana's symphonic cycle *Ma Vlast* at the Smetana Hall is given by the Czech Philharmonic Orchestra under Zdenek Kosler. Tomorrow: Jiri Belohlavek conducts a gala concert in the Rudolfinum, to mark the re-opening of the House of Artists after extensive renovation. Tomorrow and Fri in National

Theatre: guest performances by ballet companies from Lyon and St Petersburg. The Brno State Philharmonic Orchestra gives a concert in the Smetana Hall (concerts by Lynn Karrell play on Sat in the Rudolfinum). Sun: concerts by Pollini and the Borodin Quartet. Mon: recital by Josef Suk, accompanied by Rudolf Firkušny. Mon and Tues: Hilliard Ensemble (530293).  
● In addition to festival events there are repertory performances at the city's three main theatres. The Prague State Opera has Verdi's *Otello* tonight. It travels on Fri and *Madama Butterfly* on Sun. The Estates Theatre has Vaclav Havel's play *The Garden Party* tomorrow and Don Giovanni on Sat and Tues. The National Theatre has *The Bartered Bride* on Sun afternoon and *Rusalka* on Mon. More information from city centre ticket agencies (Bohemia, Na Příkopě 16, 228738, or Melantrich, Wenceslas Square 38 in the passage, 228714) and theatre box offices.

## ROME

Teatro dell'Opera 20.30 Mascagni's *Cavalleria Rusticana* with Agnes Baltsa, plus Alfredo Casella's ballet *La Gira*, repeated on Sat. Fri and Sun: Raina Kabaivanska in *The Merry Widow* (488 3841). Tomorrow in Teatro Olimpico: Ensemble Modern plays Henze's *Nonet* and Hindemith's *Octet* (323 4890).

## STOCKHOLM

● Cullberg Ballet opens a short

season at the Dansens Hus tonight with the first of two double-bills, *Carmen* and *The House of Bernarda* (daily till Sun). A second programme runs from May 20 to 24 (753-99100).

● Royal Opera performances this week include *Arabella*, *Bohemia* and *Maria Stuart* (242540). The summer season at Drottningholm Court Theatre opens on May 22 with a new pantomime ballet after Beaumarchais, choreographed by Ivo Cramer (880 8225).

● Sixten Ehrling conducts the Swedish Radio Symphony Orchestra in a Wagner and Stravinsky concert on Fri evening in the Berwaldhallen (784 1800).

## UTRECHT

Vredenburg 20.15 Muhai Tang conducts the Netherlands Philharmonic Orchestra in Brahms' Violin Concerto (Dong-Suk Kang) and Borodin's Second Symphony, repeated tomorrow. Sat and Sun: Hans Vonk conducts Bruckner's Fifth (314544).

## VIENNA

Staatsooper 19.30 Tosca with Mara Zampieri and Giacomo Aragall. Tomorrow: La traviata (51444 2960).  
Musikverein 19.30 Maurizio Pollini. Tomorrow: Boston Symphony Chamber Players (505 8190).

## European Cable and Satellite Business TV

(all times CET)

## MONDAY TO FRIDAY

CNN 2000-2001, 2300-2330 World Business Today - a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel 0830-0900 (Mon) FT East Europe Report - weekly in-depth analysis from FTTV 2100-2200 (Tues) Media Europe - what's new in European media business 2130-2230 (Wed) FT Business Weekly - global business report with James Ballin 0830-0900 (Thurs) Media Europe 2130-2200 (Thurs) FT Eastern Europe Report 0830-0900 (Fri) FT Business Weekly

Sky News 0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

## SATURDAY

CNN 0900-0930 World Business This Week - a joint FT/CNN production 1900-1930 World Business This Week

Super Channel 1830-2000 FT Eastern Europe Report

## SUNDAY

CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 1830-1930 FT Business Weekly

Sky News 1030-1400, 2030-2100 FT Business Weekly

## FINANCIAL TIMES

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Wednesday May 13 1992

## France's road to Euro-union

MR MICHEL VAUZELLE, the French justice minister, was right to tell the National Assembly recently that, in ratifying the Maastricht treaty, France will not irrevocably be giving up sovereignty. It will simply be transferring "competence" to supranational EC institutions such as the European central bank. Mr Pierre Bérégovoy, the prime minister, meanwhile has reminded his compatriots that the Maastricht path represents a way in which France, far from losing independence, can regain a degree of control over monetary affairs at present largely ceded to the Bundesbank.

Despite these weighty statements of reassurance, the French *classe politique* is churning an extremely ragged furrow as it ploughs through the task of approving the European union treaty. A "yes" vote in the National Assembly to the constitutional change has never seriously been in doubt. But the Gaullists in the right-wing opposition have shown far more hostility than expected to plans for a common visa policy and national voting rights for non-French citizens, as well as to the single EC currency. Even in France's loamy soil there exists a vein of Euro-scepticism which many had presumed existed only in the clay of Britain. Though the French debate on Europe is arguably overdue, it is healthy that these doubts should be fully aired before the treaty passes to the statute books. The intensity of the debate has underlined that the French parliament must be consulted far more closely in later stages of the Maastricht process.

### Soul-searching

Even after yesterday's final exchanges in the National Assembly, the French ratification carousel will continue to turn. The constitutional amendment has to pass before the Senate, and then to a congress of both houses of parliament at Versailles. A national referendum on the treaty may still be necessary later this summer. Maastricht soul-searching is not confined to France. The different points along the route towards European integration, particularly the "convergence" road towards economic and monetary union, will bring considerable stress for national democracies and institutions. Although the journey is

worth undertaking, the strains must not be underestimated. Each country presents its doubts in a slightly different way. A majority of Danish voters is presently telling opinion pollsters that they will vote against the treaty in the country's referendum on Maastricht on June 2. Germany frets over whether the mooted new currency should be called the Euro or the Euro-Mark.

### Queen's speech

Britain's particular Angst centres on whether the Queen, in a speech in Strasbourg, was allowed excessive latitude to make light of differences in national parliamentary traditions. The semantic formulae eventually agreed for the monarch's address yesterday, in which she hailed the "diverse personalities" of the "European family", however represented a successful compromise: phrases suggestive of *Europe des patries* these days are likely to win approval in Bonn, not just Westminster.

Much national wrangling over Maastricht may prove to be heavily exaggerated. While the Germans are worrying that they will lose national monetary control, right-wing commentators in Paris are complaining that Maastricht will bring France under the heel of the D-Mark. This is an amusing but absurd contradiction. Ironically, the French ratification discussions are coming to a head when Germany's difficulties give its partners more leeway to cut interest rates than they earlier had. The more perceptive members of the French Gaullist party realise that, even if the treaty is ratified by all, the move to Euro cannot yet be considered irreversible. National parliaments will inevitably have the final say before exchange rates are irrevocably fixed.

Through its success in strengthening the franc by bringing inflation below the German rate, France has invested more political and economic capital in the project of European union than any other EC member. The pain suffered while securing that achievement explains why the French debate on Maastricht has been so grudging; it also explains, however, why France, of all EC members, can least afford to allow the Maastricht process to fail.

## More housing choice needed

IT IS not always easy to reconcile choice and ownership, the two central themes of the Conservative manifesto. Last week's Queen's Speech included details of rent-to-mortgages schemes designed to give a further boost to home ownership. Yet with the housing market mired in a depression and mortgage repossession at historically high levels, increasing choice in housing should now be the priority.

The growth in home ownership over the 1980s has been impressive. The number of owner-occupied homes has risen from 11.5m in 1979 to 15.5m last year, 1.4m acquired by council tenants under right-to-buy legislation. The incentives to become a home owner are attractive, with tax breaks for owner-occupiers and discounts for council tenants who buy their homes. The result is that 87 per cent of UK homes are owner-occupied, one of the highest levels of home ownership in the EC.

The government now proposes a measure to encourage a further growth in home ownership among council tenants whose income is too low to benefit from the right to buy. Rent-to-mortgage schemes offer tenants part-ownership of their homes for payments no larger than their current rents. They can either buy the rest in the future, or cash in their share on selling the home.

However, pilot schemes have not been raging successes - despite the considerable cost of selling the idea to tenants. In Basildon, for example, of 6,000 tenants eligible, just 284 have applied for the scheme, and only 36 sales have been completed, with about 50 more in the pipeline. The tenants the schemes are aimed at are entitled to better discounts if they wait until they can afford to exercise their right to buy.

### Housing insecurity

In any case, it is arguable that home ownership is reaching its limits in the UK. The surge in repossession last year suggests that many people who cannot afford it have been tempted into owner-occupation. With almost one in 10 mortgage-holders more than two months in arrears with payments, the growth in home ownership appears to have brought an alarming degree of

housing insecurity. Yet for many people, there is little alternative to home ownership. Privately rented accommodation now accounts for 7.5 per cent of homes and has been in decline for 70 years. There has been a pause in the decline in the last year, which may be attributable to the ending of rent control and security of tenure in the 1985 Housing Act. But the depressed housing market has also been a factor, forcing people to rent out homes they cannot sell when transferred to new areas and encouraging would-be buyers to rent until house prices stabilise.

### Pressing need

The choice of "social housing" - subsidised rented accommodation provided by local authorities or housing associations - is just not available for many. Access is rationed by lengthy queues, and moves within the sector between areas are almost impossible. Increasingly social housing has become a ghetto for the aged, the jobless and low earners who cannot afford to buy their homes.

The pressing need is to widen choice by reviving the rented sector. And while some of this can come through the housing associations, financial institutions should be encouraged to support the private rented sector. Yet the only incentive available to developers is the badly targeted Business Expansion Scheme - is to be abolished next year.

New tax incentives may be needed to redress the balance between home ownership and renting. For example, exempting rented property from capital gains tax - in the same way as owner-occupied housing - would improve the long-term return on owning rented property. And treating rents as trading income rather than investment income would allow landlords to claim a more tax allowances and set business losses off against them.

Such incentives would require additional resources which should be found from the subsidy paid to owner-occupiers through mortgage interest tax relief. It is time to tilt the balance somewhat away from home ownership in order to widen choice in the housing market.

Just a month after its humiliating fourth successive election defeat and only days after a drubbing in the local authority polls, the Labour party is still proving fiercely resistant to deep-rooted change.

A few fragile green shoots of new thinking have sprouted as to how the party should address its future. But for each there are numerous party traditionalists cautioning against further revision of long-held orthodoxies.

It remains unclear whether Labour is ready, able or willing to take the steps necessary to reverse what some think might be a trajectory of permanent decline - or for that matter to decide what those steps should be.

Evidence of disarray came last Sunday when a tentative olive branch from Mr Paddy Ashdown, the Liberal Democrat leader, met a chorus of public criticism from senior Labour figures. Despite this some are known privately to support the significant strand in the party now favouring a measure of inter-party collaboration.

Increasingly, there are signs of a profound schism between the "one last heave" who advocate only a fine-tuning of policy and party institutions, and the radical reformers, some of whom want not only a Lib-Lab electoral pact but even a review of Labour's historic commitment to wealth redistribution.

The traditionalists cling to Harold (now Lord) Wilson's definition of Labour's objectives as "an irreversible shift of wealth and power in favour of working people". But the reformers counter that such goals merely confirm an outdated Marxist world view that threatens Labour's survival.

A prime example is Clause Four of Labour's constitution - the controversial commitment to state control of the means of "production, distribution and exchange". The traditionalists argue that to reopen the debate on what is largely now a symbolic clause would court unnecessary internal strife.

Others, like Mr Frank Field MP, say that tackling such anachronisms is essential. "Some say leave it alone as it is only symbolic. But the whole point is that the public understands symbols. That is exactly why we should discuss it."

With the election for leader and deputy leader in full swing, Mr John Smith and Mr Bryan Gould, the two contenders, are eschewing such controversies and concentrating on how best to woo the two main strands of party opinion without offending either.

In consequence, the perennial struggle for party unity is postponing a root-and-branch post-mortem that addresses the reservations of the electorate. One senior front-runner recently remarked that the serious rethinking of the party's future would only come in about 18 months, possibly within two years of the next general election.

Two parallel though interlinked debates are now in train. The first attempts to address reforms to the party itself, in particular the role of the unions: the second centres on Labour's goals and policy agenda. Both are highly influenced by how the party interprets its recent defeats.

For some, like Mr John Edmonds, the GMB general union leader, the election result was a profound disappointment but not a disaster. Labour gained more than 40 seats, he has pointed out, cut deeply into the Liberal Democrat vote and was within 1,000 votes of victory in 17 -

## The leadership contest and signs of schism in opposition thinking are delaying a far-reaching post-mortem, says Ivo Dawney

# Shadow boxing in the Labour ring



enough to have missed a hung parliament by an ace.

For that reason, he cautions calm. Union representation at the party's annual conference could be retained at a lower level, he says. It could be "democratised" by rule changes requiring delegates to be directly elected by co-workers, free from the control of the union leadership. The union role in Labour's electoral college could go altogether.

In the past four years, he argues, Labour discarded unpopular policies, but concentrated too heavily on damage limitation. Now it needs to improve presentation, get off the defensive and explain its agenda more clearly.

"Do we need a radical reappraisal of policies?" Mr Edmonds asked. "For God's sake, what do we campaign on if we abandon an element of redistribution, support for the public services, individual work-place rights and equal opportunities?"

But to the radical reformers, such prescriptions are seen as Micawberism gone mad - a recipe for further decline that fails to acknowledge the profound changes wrought by the Thatcher years. The new social landscape, they say, has sharply eroded collective loyalties and promoted individualism in a way that forces Labour to address its appeal not to the community as a whole, but direct to the citizen.

They point out that in a deep recession Mr Major managed to hold the Conservative vote steady at 42 per cent, leaving Labour more than seven points adrift. To the party's horror, polls showed that the increase in its so-called core votes - council tenants, the unemployed - was less than among affluent professional voters.

Advocates of profound change say that without a reassessment of the party's paternalist view of the citizen's relationship with the state - indeed of the very nature of what a modern political party should be - Labour will end up as no more than an anachronistic pressure group for the industrial north, the Celtic fringe and the underclass.

At an election post-mortem seminar the Labour Co-ordinating Committee - a group representing reformers in the constituencies - concluded that the party was now widely identified with the vested interests of the state sector, dominated by the public sector unions.

The adoption of a positive attitude towards the market and a readiness to embrace changes in the management of the welfare state were now a prerequisite for victory, it decided. "At the moment, we make voting for Labour sound like

an act of altruism," Mr Mike Craven, the LCG secretary, said.

Where, then, do the two leadership contenders stand between what might be not unfairly be caricatured as the blue-collar traditionalists and the smart-suited radicals? The answer is: catering to both. As Mr Tom Sawyer, the National Union of Public Employees deputy leader and influential head of Labour's home policy committee has put it: "They are setting out their stalls to where they think people are, not where they think they ought to be."

Supporters of Mr Gould, the long-shot challenger, are keen to present him as both left-wing and reformist. But his differences with Mr Smith are often more of tone and style than of substance.

Charges that his advocacy of devaluation represents a reversion to the outdated politics of the 1970s are firmly denied. Mr Gould insists that while he is pro-Europe he is also determined that the progress to a single currency should embrace a continent-wide debate as to how to achieve it, while also securing full employment, a minimum wage and employees' rights.

All that is aimed at the old left. To the new radicals, his claim is that he has a breadth of imagination and an appeal to the south of England that Mr Smith lacks. In Mr Smith's camp, initial irritation at the audacity of Mr Gould's

challenge has turned to relief. It has allowed the shadow chancellor to rebut charges that the leadership was being decided by union bosses in smoke-filled rooms. He has pledged to reduce their future role in the party more swiftly than might otherwise have been the case. To meet criticism of his tax plans from the party's reformist wing, he has offered a full-blown review of tax and benefit policy through a new Commission on Social Justice open to all - as would Labour's current review of electoral systems - to other interested parties including the Liberal Democrats.

Arguably more important as an indicator of his alertness to Labour's predicament are Mr Smith's observations that the challenge is to reconcile the interests of the two-thirds of society that are relatively well-off with those of the one third that is not. His analysis attempts to address the thorniest question for Labour: the resistance of modern income taxpayers to make sacrifices for the poor.

Both leadership contenders veer to the radical reforming wing of the party, claiming that everything except Labour's commitment to redistribution is open to challenge. But the left-wing candidates contesting the deputy leadership, Mr John Prescott, the transport spokesman, and Mrs Margaret Beckett, the shadow chief secretary, both reject as defeatist any accommodation with the Liberals or adoption of electoral reform. One front-bench critic, however, comments: "It is all very well for Prescott to boast about how he loves him in Hull; what he needs to explain is why they hate him in Harlow."

Ultimately, this question of Labour's sharply differing appeal north and south of the Wash to Severn line is far more crucial than bickering over the merits of proportional representation or the value of a deal with the Liberal Democrats even if these issues must, eventually, be addressed.

Of the more prominent shadow cabinet members, only Mr Tony Blair, the shadow employment secretary, has dared raise the crucial issue of whether Labour has adequately addressed "a tide of history" that is altering the relationship between citizen and state. The Conservatives have already laid a claim to the title of champion of consumer interests. To be credible, many believe, with Mr Blair, that Labour must leapfrog them.

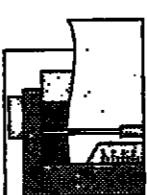
The best of the Kinlock legacy - the decline of dogmatic leftism and factional politics alongside the party's new-found determination to win - have all helped build Labour's credibility. Mr Smith, as the all but certain next leader, will be well-placed to add to that achievement not least by virtue of his authoritative yet pragmatic personality. What is more, a phalanx of Labour MPs - many of them front-benchers, Scots, or new arrivals from the April election - believe above all in preserving the unity achieved over the past five years.

But in the bitterness of defeat, Labour's discipline and cohesion is again at risk. To reverse its electoral decline, the shadow chancellor must skillfully forge an alliance not merely between the "one last heave" and the advocates of more deep-seated change. To achieve that end and to win over millions of disenchanted Conservatives, many now believe he must abandon Mrs Beckett, his preferred candidate for deputy, and harness Mr Gould to the cause.

### PERSONAL VIEW

## A dose of market reform

By Julian Le Grand



The Conservative government's market-oriented reforms are transforming the provision of public services in Britain. Advocates of market-led or quasi-market reforms on the grounds that they promote efficiency, improve accountability and expand the range of opportunities and choices open to users. Critics argue that they may have such effects under certain favourable circumstances, but that those circumstances rarely arise in the provision of welfare services. Market critics add, however, that market-led reforms, notably increased inequalities and administration costs that may offset gains in efficiency.

There are four conditions which must be satisfied if these reforms are to achieve their ends without adverse consequences. First, the market structure must be competitive on both sides, with many providers and purchasers. Competition is the engine of efficiency; if dissatisfied purchasers cannot take their business elsewhere, or if providers are at the mercy of monopolistic purchasers, incentives for efficiency or responsiveness are reduced, and providers are driven into other activities.

Second, purchasers and providers need access to cheap, accurate information, particularly concerning costs and quality. Providers must be able to cost their activities so as to be able to price them appropriately. Purchasers must be able to monitor the quality of the service they are purchasing so as to limit the opportunity for providers to reduce costs by lowering quality.

Third, providers must be motivated at least in part by financial considerations. If, instead, they are motivated by a sense of public duty, they will not respond appropriately to market signals. Finally, there must be restricted opportunities for "cream-skimming" - discriminating in favour of the less expensive user. Providers must not be able to avoid the costly or the troublesome user - the chronically ill patient, confused elderly person, the disruptive child from a deprived background. If providers can select for their clients the relatively healthy, the competent and the easily educable, then welfare services will not reach those who need them most.

It is too early to say whether these conditions are being met in practice. However, preliminary studies at the University of Bristol, the London School of Economics and elsewhere indicate some disturbing signs.

In the case of health authorities, the typical market structure, far from being competitive, is often closer to a bilateral monopoly, with a single purchaser and, at best, a few providers.

In community care, the quasi-market is more competitive on the provider side but, as with health care, there are substantial information gaps. In response to this, purchasers often prefer to contract with voluntary organisations, whose non-profit motivation makes them less likely to exploit their informational advantage and to engage in cream-skimming.

However, precisely because such organisations are not largely motivated by profit, they lack the incentive to minimise costs. Hence any gains due to their reluctance to exploit their monopolistic position may be offset by a reduction in efficiency due to the absence of incentives for minimising costs. The situation concerning GP fund-holding and education is different. In education, the market structure does seem to be competitive both for providers and purchasers. Also, the information gap is less than in other areas.

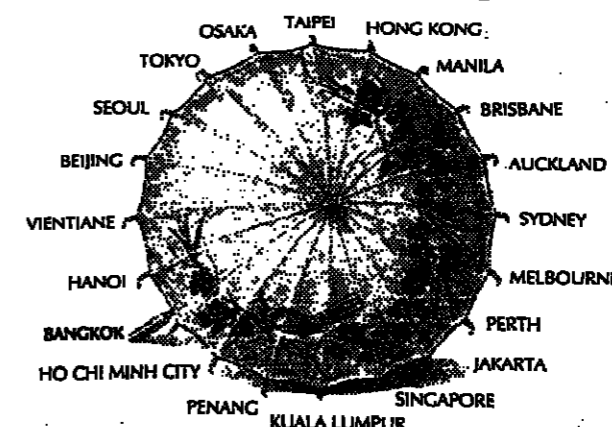
Moreover, there do appear to be signs of some, surprisingly rapid, changes in behaviour in the direction that theory would predict, with parents exercising their opportunities for choice and schools being motivated to make financial surpluses. However, there also appear to be preliminary signs of cream-skimming, with schools setting up formal or, more commonly, informal, means of selection.

GP fund-holding also appears to have considerable potential for improving efficiency. The quasi-market is competitive on both sides. More important, GPs have access to the best possible information concerning the quality of care. On the negative side, the costs to providers of negotiating with large numbers of fund-holders is high. And there is an obvious danger of cream-skimming by fund-holders in their selection of patients, although there is little sign of this happening.

None of this is to suggest that these changes have failed. The systems these reforms are designed to replace also had their inefficiencies and inequities. The re-election of the Conservatives last month means that the reforms will be given time to work their way through. Only then will it be possible properly to assess whether quasi-markets in the provision of welfare services are the way forward to a more efficient and more responsive system, or a retrograde move towards commercial exploitation and greater inequality.

The author is professor of public policy, and director of the School for Advanced Urban Studies, University of Bristol.

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Edward Mortimer

## America's blurred borders



FOREIGN AFFAIRS

Flying from the US to Brazil last week, I expected a complete contrast: from north to south, first the world, then the world, then the world. But one should always beware such simple categories. In Brazil, what did I find? First, I arrived in a city, São Paulo, which has 2m more inhabitants than Los Angeles and is at least comparable in the area it covers and the size of its buildings. Whenever you think you are getting near the edge of it, another clump of skyscrapers appears on the horizon.

Much of São Paulo seems pure First World to the casual visitor. The streets and flyovers are thorough, Volkswagen and other "European" cars (all made in Brazil, one soon learns). There are bank headquarters in clusters of blue glass towers. There are areas for pedestrians spaghetti junctions, leafy residential quarters. The metro (underground) is clean, modern and fast - suffering only from a lack of maps inside the carriages.

For two and a half days, I listened to bankers, management consultants, bond brokers, academics and the state governor, all discussing on inflation accounting, the difficulties of the recession, the changes of the government's economic strategy, the origins and nature of the foreign capital now flowing into the country. They discussed the signs of a change in Brazilian mentality as privatization even of sacred cows like Petrobras (the state oil company) is widely debated, imports of goods and capital are welcomed, and the successes of other Latin American countries - Mexico, Chile, Argentina - are interestingly publicised and envied.

Of course, I knew that this was not the whole story. Although beggars in the street are not much more numerous in downtown São Paulo than in London, the *favelas* or cardboard cities of São Paulo are far more extensive. About 1m people live in these shantytowns which are dotted all over the city, though often crammed inconspicuously into narrow strips, underneath a flyover or beside a railway track, constantly invaded by noise, fumes and other forms of pollution. Another 3.5m live in *cortijos* (crowded, multiple occupancy buildings).

On the third afternoon, I got Father Patrick Clarke, an Irish Catholic priest who has worked for 15 years in the city, to take me to the *favela* of Vila Prudente. It is a surprisingly cheerful place, probably because it is one of the older

Brazil is sharply divided between rich and poor and has surprising similarities to society in the US



A shantytown overlooks skyscrapers in Rio de Janeiro

*favelas* (dating from 1978). The 6,000-10,000 inhabitants have at least had time to convert their shacks into rudimentary houses, and to develop some institutions of their own, such as a crèche and a handicraft centre.

It reminded me of Palestinian refugee camps where, with a minimum of help and leadership from outside, the inhabitants have usually constructed some sort of township, with its own economy and society.

And, of course, these Brazilians are also refugees, in a sense: refugees from the subject poverty of the rural north-east which makes even their present way of life seem privileged.

At least here they are not starving. The alleyways and schoolrooms are full of children, who infect you with their cheerfulness until you remember that for many of them the future holds little prospect other than drugs and crime.

Families are large, but have decreased over the last few years. It is now common for women to have their fallopian tubes tied after the third or fourth child, whereas in the past families of 15 were not unusual. Although this operation is still officially illegal, it

is sometimes performed by doctors without the knowledge or consent of the woman herself.

More often, though, it is the fruit of a conscious decision on the woman's part, as the old rural logic of having more children as an insurance for your old age is replaced by the new, urban one of not having more than you can cram into your tiny home, or feed from your pitifully low income.

This explains why the latest census reveals that Brazil's population to be "only" 145m (still more than 10 times what it was in 1900) instead of the expected 150m, and why the annual rate of increase has fallen to 2 per cent. That is still a very daunting figure, but should make it easier for President Fernando Collor de Mello to confront the issue at next month's UN summit on environment and development ("Eco82"), which he is to chair. Unprecedentedly for a Brazilian politician, he wrote in a newspaper article last week that he intended to give the population issue priority, and would himself take the initiative in raising it at the summit.

The Catholic church, much blamed by First World social theorists for its hostility to

birth control, does not seem to be actively opposing this change of attitude among the urban poor. And in any case, it is not the only or perhaps even the main conduit for their religious feelings.

Father Patrick sees his role as more political than religious in the traditional sense. He quotes Dom Helder Camara, the much revered (and reviled) archbishop of Recife in the north-east - "If I give bread to the poor they call me a saint; if I ask why they have no bread they call me a communist" - and says that his role is to help people ask and find answers to that second question. He is also full of praise for São Paulo's socialist mayor, Mrs Luiza Erundina, who has helped *favela* dwellers to set up housing co-operatives and move into proper homes - "an achievement any municipality should be proud of yet scarcely mentioned in the mainstream Brazilian media."

"That spire," says Father Patrick sadly, pointing at a church some half mile from the *favela*, "is very far from these people, culturally and economically." By contrast, the new pentecostal churches proselytise actively in the *favelas*, preaching a fundamentalist gospel without political overtones, and winning a substantial following.

Perhaps Brazil is not so different from the US after all. Per capita gross national product is not everything. Both countries are settler-colonial states which expanded to occupy the lion's share of their respective continents. Both have federal presidential constitutions which give great prestige to the head of state but rather little power, whether to push legislation through congress or to control the expenditure of states and municipalities. Both are wrestling, partly for that reason, with intractable public sector deficits - although the inflationary consequences in Brazil are much more drastic, and the recession much deeper. Both have very high income disparities between rich and poor, and an urban underclass increasingly given to violence, mainly against itself, but enough to make the rich flee into their own fortified suburban ghettos. Both feel ambivalent about celebrating the third century of 1492, because they contain remnants of indigenous peoples for whom that date marks the beginning of centuries of exploitation and genocide.

One important difference seems to be that Brazil, after 50 years of sheltering behind protective barriers, is now opening to the outside world, whereas the US, after 50 years of confident world leadership, shows increasing signs of insularity and xenophobia. But then the US is plagued by a trade deficit, while Brazil is running a handsome trade surplus.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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## Legislation for pension security

From Mr Maurice Redman

Sir, Your timely leader (May 11) outlining improvements needed to pensions schemes seems unexceptional apart from the suggested shift towards money purchase schemes. If these depend on the gamble on market performance and annuity rates at retirement day, they do not achieve the essential ingredient of a pension scheme - predictable and therefore reliable pensions.

Now is the time not only to legislate for fund security but also to remedy the shortfalls of the Fowler legacy, which is not achieving the quintessential tenets.

One is that we should all pay for our pensions as we journey through our working life. (But the abolition of compulsory membership of occupation schemes is now coupled with only voluntary personal pensions and is consequently resulting in an unacceptable proportion of people making no pension provision at all, so these will become an ultimate burden on the state.)

Another is 100 per cent fully transferable service between occupational schemes, ensuring maximum flexibility for the benefit of the economy and for individual career prospects.

The only financial beneficiaries of down-rated transfer values are the former or the new employers or both: a person changing his job should not be robbed in this manner when he has paid for his pension in good faith. The defensive but tortuous actuarial arguments

## Cost pressures that will change the shape of the oil industry

From Ms Christine Baker

Sir, I read with interest the Lex column regarding the oil industry (May 11) where the real problem was diagnosed as "not so much cheap oil as the financial legacy of the late 1980s". This tells part, but by no means all, of the story.

Companies are facing a declining net margin not just because of the restored downward trend in real oil values - which looks set to continue in the 1990s - but because of rising real costs. These are an equally important part of the profit equation, yet strangely ignored.

The industry is facing cost pressures on all sides; upstream, as exploration activity increasingly focuses on frontier, or relatively unexplored, areas; downstream, as product specification standards are tightened to deal with environmental issues.

In the US alone, it is estimated that the cost of clean air

legislation will amount to some \$40bn between now and 2000.

The leading companies will meanwhile continue paying the price of a largely unsuccessful and expensive diversification programme away from oil and gas in the 1980s through an ongoing process of restructuring.

For the independents spawned during the boom years, horizontal integration may be the next big step forward in the process of their evolution.

The industry's power base, having variously shifted between the owners and developers of the assets over the past 30 years, now seems to be moving towards the consumers. The industry as a whole will survive the trend, though perhaps not in its current form.

Christine Baker, Nemura Research Institute, 1 St Martin's-le-Grand, London EC1A 4NP

## Auditors' image moves misdirected

From Mr Philip K Wood

Sir, I am dismayed at the misdirected attempts of the auditing profession to reform its image (Letters, May 7). For example, the proposal for interim accounts to be audited is clearly self-serving and will add to audit costs. The profession is trying to widen the scope of its involvement at the same time as avoiding taking responsibility for the traditional audit.

A reversal of the "Caparo" decision is long overdue. There is no point in widening the scope of the auditors' remit if investors cannot rely upon the existing annual audit opinion.

Philip K Wood, group financial controller, director of treasury, Reuters, 85 Fleet Street, London EC4

## No remit for back-door advertising

From Mr Chris Grayling

Sir, I would like to clarify one area raised by Raymond Snoddy in his comprehensive feature (Management: Marketing and Advertising, "Turning to television for the power and the glory", May 7) about the broadcasting of company annual general meetings on BBC Select.

While the BBC believes that improving shareholder access to company information is perfectly in keeping with its public service remit, it is also important to ensure that the service does not allow advertising by the back door. So any mention of products on the new service must be clearly within the context of the meeting, and must not be promotional in tone.

The use of BBC airtime to cover events such as product launches will not be permitted. Chris Grayling, commissioning editor, BBC Select, 80 Wood Lane, London W12

## Plea is a sign of growing competition

From Mr David Porter

Sir, I had just finished telling a New York conference that competition was developing in the UK electricity industry, when I read your report about National Power's plea to the new energy minister, Mr Tim Eggar ("Power chief sees threat to coal sell-off", May 9).

If Mr Eggar wants the two major generators to buy more coal from British Coal than

they seem inclined to, he should avoid offering any bribe which might damage emerging competition in generation.

Much of that competition will come from clean, efficient gas-fired power stations and it is ironic that National Power's chief executive should be asking the regulator (Ofgem) to question the economics of its competitors' gas fired projects. What he did not say is that

National Power is building several such stations and that these will also displace coal-burning plants. Perhaps National Power's special pleading is a sign that the business is becoming more competitive.

David Porter, chief executive, Association of Independent Electricity Producers, Herodsfoot, Liskeard, Cornwall PL14 4QX

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## OBSERVER

## Défense de pooper

■ Paris mayor Jacques Chirac is determined to get to grips with the one enormous stain on his reputation for City management. He has declared war on his city's 200,000-strong canine population.

For the past nine years, Paris' front-line defence has been its squadron of green and white *motos croites*. With an estimated 10 tonnes of dog dirt dumped daily on the city's 2,500 km of pavements, Chirac's pooper scooters have been kept on round-the-clock alert. Armed with vacuum tubes, they buzz around slurping up every little mess in sight. But, as with painting the Forth Bridge, the problem piles up anew behind them.

However, the time has come, says Chirac, for the citizens to take a stand. His officials cannot let the bill for running the *motos croites* - FF4.4m a year - rise any higher. So those Parisians who dare lift their eyes from the pavement should not be fooled by the delightful new posters by cartoonist Ronald Searle round the city, one showing a desperate owner on his knees, begging his dog to use the gutter. The propaganda is just a diversion.

Chirac's most potent weapon is a new list of fines of up to FF1,300 for owners of naughty dogs. Not only are the fines considerably tougher than comparable penalties in London and New York, but they also put the fastidious Swiss to shame.

## Sticky problem

■ Meanwhile, in Brussels - a city already awash with lobby groups and trade associations - it is hardly surprising that the European

Association for the Promotion of Handhygiene has so far gone unnoticed.

But the EAPH (slogan: United For Handhygiene) looks set to make a big splash with a press conference next week, when it will reveal the results of its inquiry into the behaviour of users of public toilets....

## Seal of approval

■ Much play is being made of the government's search for new sources of statistics. But Observer hears that the much-maligned Central Statistical Office has found one satisfied customer - Marks & Spencer.

Apparently, Bill McLennan, the Aussie statistician drafted in to rehabilitate the CSO, so impressed Marks & Spencer's top brass in a recent visit that Britain's leading retailer has agreed to drop its participation in a rival private scheme to collect retail information.

M&S reckons McLennan will knock the government's statistics into shape, so there is no point in duplicating efforts and supplying data to the rival project.

## Tax tangle

■ The drift and indecision afflicting German government makes itself felt in ever-widening circles. Take the annual conference of German tax accountants in Würzburg this week.

Wilfried Dann, president of the accountants' professional association, has been railing at the growing legal uncertainty plaguing his industry. He has totted up that it is now 16 months since an income tax directive had been classed as a "final decision". Instead, the relevant authorities have taken pushing out directives



"You don't look as if you're from Liechtenstein"

Invariably qualified as "provisional".

The problem, he concedes, starts with the Karlsruhe constitutional court, which has a backlog of two years or more on key tax decisions. This encourages the accountants to lodge appeals on related cases, which might one day qualify for tax relief.

So the tax inspectors attempt to stem the flood of appeals by issuing a counter-flood of provisional memoranda to clarify existing law. Worse and worse, the authorities in the various German Länder issue conflicting "clarifications".

The end result is an appalling cat's cradle for the accountants to sort out. One almost feels sorry for them.

## Earthly support

■ Leaving aside an over-powering belief in Britain's Conservative party, it would seem that on certain key issues the Daily Mail's 66-year-old publisher Viscount Rothermere is less in tune with his own paper than with his gutter-press rival, The Sun.

He and it both support the Archbishop of Canterbury's

attack on greedy executive pay rises - which is more than can be said for the Daily Mail itself.

"It is not surprising that the churches are so empty when the leadership of its priesthood is intellectually so mediocre and so out of touch with the mood of our times," opined the Mail on Monday.

Yesterday, it was forced to publish a prominent letter from its proprietor - who supplements his £559,000 salary with the earnings on his £20m-plus family fortune - distancing himself from the Mail's criticism of the archbishop.

Meanwhile, the archbishop may be heartened by being told by a Sun editorial that "if we cannot have Savonarola or Billy Graham, you are the next best thing". Pretty profound stuff.

## Sour note

■ While we're talking about interfering newspaper barons, Lord Stevens's annual bash for the great and the good at the Savoy Hotel yesterday wasn't quite up to scratch. There was nothing wrong with the guest list. Everyone from the Daily Telegraph's Conrad Black and the BBC's Michael Checkland to Chris Patten and Kenneth Clarke turned out to listen to the United Newspapers' proprietor.

But why was Stevens handing out free copies of the Pick of Punch? Not only has he himself just closed the 150-year-old satirical magazine, but the book is published by one of his arch rivals, Rupert Murdoch's HarperCollins.

## Shome mishtake

■ What do you call a wine bar that doesn't accept Luncheon Vouchers? LV? No!

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# FINANCIAL TIMES

Wednesday May 13 1992

60 YEARS OF  
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Nurses march through Tokyo earlier this week to demand better working conditions. The banner reads 'We need a vacation'.

## Japan adopts new work ethic

By Robert Thomson in Tokyo

JAPANESE executives are lamenting the disappearance of a breed of model worker delighted to do unpaid overtime, inspired by a passionate loyalty to the company and even "genetically inclined" towards hard work.

As part of an intensifying debate about whether the Japanese work ethic is being eroded by "western-style" individualism and materialism, the Keidanren, the country's federation of economic organisations, surveyed 2,125 chief executives and senior managers, who agreed that the work ethic was changing but disagreed on the impact.

The debate was inspired by Mr Akio Morita, the Sony chairman, who recently announced that managers should reduce working hours, raise workers' salaries, increase dividends and generally become more philanthropic.

He also suggested that companies abandon their quest for market share and concentrate on profit quality.

Mr Morita's comments were taken by some outraged executives as a direct attack on the terms and conditions of a social contract that

had ensured Japan's success. There was also concern that employee enthusiasm may be undermined by a chairman's confession that they were under-compensated.

The federation's survey showed that Japanese companies are indeed dependent on the enthusiasm of their staff, as 88 per cent of the companies rely on "service overtime", that is, unpaid overtime.

About 53 per cent of managers surveyed said unpaid overtime should decline but only 19.4 per cent supported an end to the practice, which makes the working year far longer than the official estimate of 2,062 hours. Japan's company-backed unions say the actual figure is closer to 2,400 hours.

Asked to describe their employees' source of motivation, 30.9 per cent of managers said promotion prospects were most important and 26.9 per cent thought it was salary, but 37 per cent suggested that the love of work itself was the prime factor.

A Nippon Steel executive said "Japanese corporate energy" came from Japanese-style work values, self-realised desire and a now declining, but essential love of teamwork. An executive at J.R. Tokai, the railway operator,

said "individualism" was replacing company loyalty as the most important motivation.

Increasing wealth was seen as a threat to the old order, with 41 per cent of executives believing that work values were being eroded by material comfort, although 23 per cent disagreed, and 36 per cent were unsure.

These questions prompted the not uncommon answer that the Japanese work-style was fundamentally different because of the rice cultivator tradition - westerners are said to be imbued with the spirit of hunter-gatherers and thus have become more individualistic and aggressive.

Mr Tsuneo Aki, vice-chairman of Obayashi, the construction company, said that as cultivators, Japanese people had to toil more diligently. The result, he suggested, was that Japanese became "genetically inclined" to working hard, with genes quite distinct from those of westerners.

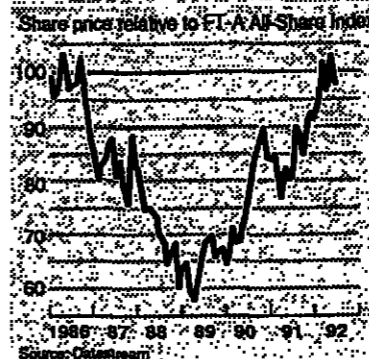
Other executives said Japanese workers were less efficient than their US and European counterparts, while unnecessary "service overtime" was clocked-up by employees unwilling to leave the office before their managers even if they had nothing to do.

## THE LEX COLUMN

## Inflation in the works

FT-SE Index: 2722.4 (-15.4)

### Marks and Spencer



one per cent on some 5 per cent extra space is telling enough. The issue is particularly sensitive for Marks, whose reputation owes much to the notion of fair value. In clothing, as elsewhere in the retail trade, discounting is now so prevalent that shoppers may have some difficulty in deciding what constitutes a fair offer.

But it does not do to quibble. At yesterday's 331p, Marks's shares are on a historic multiple of 22 times, compared with a market average of 17. If the prospect were one of a sharp bounce in retail spending, that would look expensive by comparison with Marks's more bombed-out peers. But in the past couple of weeks, the market's faith in a post-election retail boom has weakened perceptibly. In uncertain times, there is much to be said for quality.

### Marks and Spencer

If the defensive qualities of Marks and Spencer were ever in question, its full-year figures provide the final rebuttal. The 1 per cent rise in pre-tax profits and earnings per share means it has got through yet another recession - a particularly savage one for the retail trade - with its growth record since the Korean War intact. Although Marks sees no upturn in demand, its UK profits growth and margins were better in last year's second half than in the first. In the current year, it says, the cost-cutting measures already undertaken mean it can increase profits further on unchanged volume.

The one caveat is pricing. Marks is notably silent on the question of volume versus prices last year, although the fact that its UK sales were down

### BP

BP's disposal of its remaining interests in Canada through a Canadian securities house highlights how difficult it is to sell assets these days. The proceeds will be paid in instalments over two years. But at least the deal closes a frustrating chapter for BP. It also raises the larger question of what the group might look like when its disposal programme is complete.

In broad terms, the balance of the business may not look that different, with upstream oil accounting for roughly two thirds of capital employed and the remaining third devoted to downstream oil and other odds and ends. Exploration will concentrate on the biggest, most profitable fields at the expense of riskier regions, where assets will eventually be sold.

The big question concerns the future of the unprofitable chemicals division, which, at £3bn of annual turnover, is around the same size as the bulk chemicals business of ICI. It is once more under the cost-cutter's knife. If BP decides that its required rate of real growth is not achievable, it may seek outside help by way of an off-balance sheet alliance or joint venture. The attraction of that route is twofold. BP would share the formidable burden of petrochemical investment. It would also flatter its creaking balance sheet by shifting debt off the books. By going for scale, it might also turn the screw on a few other oil companies which share the decades-old delusion that chemicals provide a hedge against the oil industry cycle.

### BAA

The stock market is bound to worry that BAA's profits in the late 1990s will get stuck in the sludge works occupying the future site of Heathrow's Terminal 5. Investors, to be sure, have good reason to be cautious about the airline industry's long-term prospects, given the unanimous belief of the experts that everything looks rosy. But worries that BAA will be unable to fund the terminal from new borrowings and retained earnings are probably misplaced.

After adjusting for interest and inflation the ultimate cost of the project could be £2bn, of which perhaps a little over half will be needed to complete Phase One in 2002. That implies additional capital spending of £100m a year, hardly excessive for a group which should be making profits of £250m-£300m this year. Admittedly, BAA is heavily cash negative at present due to existing capital commitments and low profits. But by 1998-97, when the work is expected to start, this should have reversed. The next pricing review is conveniently timed for around then, which could give the company an opportunity to repeat the sort of threats which helped it secure such a lenient regime last time.

That said, it is hard to see BAA providing much excitement following the re-rating of the last six months. Relief at the outcome of the review, the disappearance of the Labour threat and the stay of execution for intra-EC duty-free have combined to leave the shares on a prospective yield of under 3 per cent and a forward multiple whose premium to the market is again higher than the post-privatisation average.

## Unions widen scope of protest and threaten action against the media

## Gonzalez steps into strike row

By Peter Bruce in Madrid

THE POLITICAL atmosphere in Spain has sharply deteriorated ahead of a half-day general strike planned for May 28. Prime minister Felipe Gonzalez is promising to "guarantee" the right of people to work during the strike and the unions are threatening action against the news media.

The unions called the strike - and a further full-day stoppage in October - to protest at a decree that cuts unemployment benefits. They have also widened their protest to include an attack on government plans to introduce strike legislation and cuts in public sector industries.

Mr Gonzalez, who intervened in the growing dispute for the first time yesterday, urged the unions to call off the strike.

"Whoever wants to work on the 28th will be able to do so," he said. The unions are likely to mount pickets outside factories

and offices to stop people breaking the strike.

Mr Gonzalez also said the government would ensure minimum levels of public sector services would be maintained. The government's strike legislation, about to be put to parliament, is designed legally to enforce such services in the public and private sectors, and attempts to impose them on May 28 are likely to be stiffly resisted.

The prime minister said the benefit cuts had been made as part of Spain's plans to converge its economy to higher EC standards and to enable the country to enter economic and monetary union as a founder member in 1997 or, at the latest, by 1999.

Mr Gonzalez denied he had any differences of opinion with Mr Carlos Solchaga, finance minister, who drew up the convergence plan containing the benefit decree. He insisted that Spain had no alternative but to enter

Emu with its more powerful EC partners.

"What interests me is the well-being and security of this country," he said, "and I am convinced that the efforts outlined in the convergence plan are the way to achieve it."

Some observers in Madrid believe that by widening their demands beyond the repeal of the benefits decree, the unions may be tacitly acknowledging that public support for strike action against the decree only may be hard to sustain.

It seems likely, though, that the strike call will be adhered to on May 28, effectively shutting down the country. Experience suggests this will not necessarily imply support. During the last general strike on December 14 1988, many people simply took the day off as a holiday.

Newspapers have reacted angrily to demands that they publish a message from the

unions on their front pages on the day of the strike. The unions have also told radio stations only to play music during the strike, to be broken by news broadcasts. Television channels have been told to display their test cards. The unions have said that, if the media do not agree to these demands by tomorrow, they will take action against them.

In an angry editorial, El Pais, the country's leading newspaper, described the demands as blackmail.

The Spanish Senate is due to complete a debate today on the convergence plan drawn up by Mr Solchaga. The government has said it would admit small changes being asked for by two large regional parties but the plan is likely to become law without significant changes. It will then be submitted to a meeting of EC finance ministers before the Lisbon summit at the end of next month.

## Queen makes her Strasbourg debut

Continued from Page 1

The Queen drew up in the Renault model favoured by Mr Jacques Delors, president of the European Commission, who appeared in the chamber without the emperor's crown Euro-sceptics assume him to covet, and was first to his feet upon her entry.

Mr Valéry Giscard d'Estaing, the former French president, made his entry after she had begun speaking - a tactic much favoured by her successor Mr François Mitterrand at European summits.

She got a warm welcome from MEPs who spent part of yesterday squabbling about seating arrangements. This row was triggered by the Euro-Conservative

adjunct of Her Majesty's government, which now that it has swelled the ranks of the Christian Democrat bloc in Strasbourg has had to reassess (physically) to the right of Mr Jean-Marie Le Pen's neo-fascist group.

The Queen's theme was the reconciliation of post-war Europe, strength in diversity, and "the necessary balance struck at Maastricht" enabling action "on a European basis where the nature of a problem requires a European response". Enlargement of the EC and the nature of eastern Europe were emphasised - as much as anything by the 22 flags of the Council of Europe flying where normally the 12 members of the EC club hang their pennants. But unlike Queen Beatrix of the

Netherlands at Maastricht, Queen Elizabeth did not offer to "sacrifice her head" (on the cottage of the realm) for European Monetary Union.

It turned out to be "differences of opinion and style" which were "insignificant against the background of the proven commitment of Europeans today to reconciliation and democracy", and the Buckingham Palace sources insisted that no, there had been no change in the wording.

Her Majesty permitted herself a joke on the vigorous debating style British members "will no doubt have brought to the deliberations of this house... a style which can be confrontational, as some of my ancestors found".

Republican sentiment was wholly absent yesterday, how-

ever, and the Queen got two ovations. At the lunch, the toast was "Europe", washed down by Moët et Chandon. 1996, Mr João de Deus Pinheiro, the current Portuguese president of the Council of Ministers, said he felt "the European spirit was always there [in the UK], but now it's slightly more visible."

Mr Carlo Ripa di Meana, the EC environment commissioner who prompted the UK government's pre-Maastricht outburst about Commission meddling in national "nooks and crannies", said he was "moved and overcome by the presence of Her Majesty the Queen". One measure of her triumph was his decision to eschew his habitual bright green-rimmed spectacles, and wear royal blue ones for the occasion.

## The Government Controlled Industrial Reconstruction Organization S.A. of Greece

and

## Piraiiki-Patraiki Cotton Manufacturing S.A.

have sold

## Piraiiki-Patraiki Van Delden Textil GmbH

to

## Neue Baumwoll-Spinnerei und Weberei Hof A.G.

We acted as exclusive financial adviser to The Industrial Reconstruction Organization S.A. and Piraiiki-Patraiki Cotton Manufacturing S.A.

**NIKKO**  
Nikko Europe Plc  
Mergers and Acquisitions

April 1992

World Weather		°C		°F		°C		°F		°C		°F		°C		°F	



## INTERNATIONAL COMPANIES AND FINANCE

## M&amp;S advances 1.3% to £623.5m

By John Thornhill in London

MARKS and Spencer, the UK-based retailer, reported a 1.3 per cent increase in pre-tax profits last year as it successfully defended its operating margins in severe trading conditions, but damped down immediate expectations of a consumer-led recovery.

The international clothing and food group warned that it was still experiencing "no upturn in UK consumer spending" and revealed its intention to prune its loss-making Canadian operations by closing a further 25 stores by the end of January.

In the year to March 31, pre-tax profits rose from £515.5m (£1.045bn) to £623.5m on sales 2

per cent higher at £6.26bn compared with £6.26bn last year.

Store sales in the UK fell by 0.6 per cent to £4.92bn as the company lost market share as a result of aggressive discounting by competitors.

Sir Richard Greenbury, chairman and chief executive, said M and S had refused to buy additional sales by cutting prices and was in a strong position to attack when confidence recovered and retailers saw the "whites of the consumers' eyes".

"The biggest difference between us and our competitors is that we have sold goods at full price and full margin. Their attempts to build their sales have been at the expense of their profitability," he said.

M and S's pre-tax figures were pegged back by exceptional costs of £46.9m, compared with £16m last time, relating to M and S's voluntary redundancy programme in the UK and rationalisation of its Canadian operations.

Stripped of these, pre-tax profits advanced by 6.2 per cent to £670.4m as M and S reined in costs, made substantial productivity gains and lifted operating margins from 11 per cent to 11.7 per cent.

Mainland Europe showed good growth and the upmarket Brooks Brothers chain in the US and Japan improved its profitability. But Kings Super Markets in the US and the group's three Canadian businesses again disappointed.

After swallowing an extraordinary charge of £29.8m relating to the goodwill write-off and loss on the anticipated disposal of its Canadian Peoples Division, M and S reported only a slight increase in earnings per share to 14.8p from 14.7p. A proposed final dividend of 5p will lift the annual payout by 6.4 per cent to 7.1p from 6.7p. The company's shares rose 1p to 33p.

Mr Mark Husson, retailing analyst at Warburg Securities, said: "This result must qualify as a rabbit out of a hat. M and S could not buck the trend in terms of absolute demand but it could improve its performance because of its accelerated productivity growth."

Lex, Page 18

## Péchiney cuts stake in packaging subsidiary

By Richard Waters

PECHINEY, the French state-owned aluminium producer, cut its stake in its packaging subsidiary, Péchiney International, to 67.9 per cent yesterday, with the sale of FF1.29bn (\$230m) of its shares in a private placement.

Its holding fell from 74.1 per cent and is likely to fall further to 66.7 per cent at the end of June when publicly held warrants on its shares fall due to be exercised.

The private placement was conducted in France and internationally by Banque Nationale de Paris, Credit Suisse First Boston and Lazard Freres. The three banks bought 14.3m warrants in the subsidiary from Péchiney and immediately exercised them, resulting in the issue of 7,146,088 new shares.

Yesterday's sale raised FF1.29bn for Péchiney International. The total will rise to FF1.7bn should further publicly held warrants be exercised at the end of June.

In addition, the company expects to raise FF3.85bn shortly from the sale of its aluminium and international trading businesses to its parent.

The money raised would "strengthen Péchiney International's financial position and enhance its ability to develop its principal line of business, packaging", the company said.

Péchiney added that the private placement - which came after the market had closed - was expected to be completed shortly. No particular block of shares was earmarked for sale internationally, with all three banks selling shares both in France and abroad.

## Investor records improvement

By Robert Taylor

INVESTOR, Sweden's leading investment company, has announced a strong improvement in profits for the first three months of the year to SKr1.14bn (\$192m) from SKr258m for the same period of 1991.

The main reason for the strong growth was the sale of Investor's shares at the beginning of the year in Skandia, Sweden's leading insurance company and the engineering group Asea. At the end of March, Investor's strategic portfolio on the Stockholm bourse was valued at SKr23.07bn.

Metra, the Finnish industrial company, is seeking the authorisation of its shareholders on 8 June for a FIM60m share issue over the next twelve months. When and whether the company goes ahead will be decided by the board.

## Esselte to divide in two in restructuring move

By Robert Taylor in Stockholm

THE board of Esselte, the Swedish office products group, confirmed yesterday that it proposes to divide the company into two independent groups as part of its restructuring programme.

Esselte AB will be the company's international business arm concentrating on the production and marketing of office products while there is to be a small Nordic business - Information Systems - dealing with the company's wholesale and retail operations related to office electronics and office products.

The aim of Esselte's division

is to streamline the business and create a more clearly defined and efficient structure. Yesterday the group acknowledged its present organisation was chaotic and hinders overall development.

While Esselte's international manufacturing segment is "currently in a more expansive phase," its Nordic operations are "experiencing a phase of consolidation and restructuring." The group said yesterday this created problems for the focus of its activities and resource allocation.

The shareholders will be asked to approve of Esselte's division at their annual meeting on June 12 and the company said the share distribu-

tion would take place no later than November 30.

Under the proposal the Swedish company Geringe Intersens, owned by Mr Rune Andersson, Esselte chairman, will become the largest shareholder in the new Nordic group with 34.8 per cent of its equity and 47.7 per cent of its voting rights after buying the shares in Esselte owned by the two large Swedish banks Nordbanken and Gota.

Esselte has gone through a prolonged period of upheaval caused by competitive cost pressures and falling demand for its products.

Two years ago it began to concentrate on a core business strategy.

## SGS up 17% at four months

By Frances Williams in Geneva

SOCIETE Générale de Surveillance (SGS), the world leader in product inspection and testing services, increased turnover by 17 per cent in the first four months of 1992, Mrs Elisabeth Salina Amorini, chairman, said yesterday.

This figure was boosted by the weakness of the Swiss franc against the dollar and

poor business last year due to the Gulf conflict. The chairman said she faced 1992 with confidence despite the difficult international environment.

In 1991 SGS boosted revenues by 9.7 per cent to SF2.2bn (\$1.44bn) with a "marginally favourable" contribution from currency movements. Mrs Salina said the Geneva-based group would continue its policy of balancing internal growth with acquisitions of

small and medium-sized companies designed to strengthen its core activities.

Ascom Holding, parent of the Swiss telecommunications group, says it plans to abolish any remaining participation certificates, which have now been largely converted into registered or bearer shares. Ascom, which had a consolidated turnover of SF3.1bn last year, plans an unchanged dividend of 14 per cent.

## German regional bank continues buoyant trend

By David Waller in Frankfurt

OPERATING profits at Westdeutsche Landesbank, the German regional public sector bank, climbed by "more than 30 per cent" in the first three months of the current year against the comparable period for last year, the bank's chief executive said yesterday.

Mr Friedel Neuber said that the good performance to date would put the bank on course for total operating profits of about DM1bn (\$600m) for the year, up from DM970m for 1991.

He cautioned that first-quarter operating profits were inflated by the inclusion of a contribution from the house-building promotion facility of

the state of Westphalia for the first time. Stripping this out, profits would have risen by 30 per cent in the first quarter.

The figures confirm that the German banking sector is still enjoying excellent lending conditions in the wake of a vintage year last year.

Last month, Commerzbank reported total operating profits up by 75 per cent in the first two months of the current year.

Spelling out some details of last year's results, WestLB said that group net profits rose from DM56m in 1990 to DM224.64m last year, while group operating earnings for last year more than doubled from DM340m to DM714m.

## COMPANY NEWS IN BRIEF

BUHRMANN-Tetterode, the Dutch paper distributor, office supply and packaging group, said profits fell in the first quarter despite a rise in sales, AP-DJ reports from Amsterdam.

The company, which saw its net profits plunge in 1991 to F105.1m from the year earlier level of F129.8m (\$14.4m), said sales rose 2 per cent in the quarter against the same 1991 period.

Portugal will privatise 49 per cent of the national airline,

TAP-Air Portugal, in the second half of 1993, Reuter reports from Lisbon.

The government did not say what form the sell-off would take, but that control would stay in Portuguese hands.

Dutch brewer, Grolsche Bierbrouwerij, said its Grolsch Export BV subsidiary had reached a sales, distribution and marketing accord with Spanish brewer, La Cruz del Campo, 90 per cent owned by Guinness of the UK, Reuter reports from Amsterdam.

## BBV in accord with Tractebel

SPAIN'S Banco Bilbao Vizcaya (BBV) said yesterday it had signed a general industrial co-operation agreement with the Belgian utility Tractebel, AP-DJ reports.

In a short statement, the Spanish bank described the agreement as "a general accord on global co-operation in the industrial sector."

Details on the accord will not be available until the two companies finish defining the agreement, a BBV spokesman said. The spokesman was unable to say how the accord would affect Proindesa, the industrial holding BBV formed in January with Spain's largest private utility, Iberdrola.

But in its statement, the bank said it had increased its stake in Iberdrola to almost 10 per cent from 5.9 per cent "by virtue of the accord."

Tractebel has acquired around 3 per cent of Iberdrola since the start of the year under an agreement to strengthen the ties between the two utilities as a basis for joint ventures.

Subsequently, Iberdrola and Tractebel formed a consortium to bid in the privatisation of the Argentine utility Servicios Electricos del Gran Buenos Aires (Segba).

The Spanish and Belgian companies each hold 25 per cent stakes in the consortium, while the US utility Utilicorp United has 16 per cent and the rest is in the hands of several Argentine concerns.

## NCM Holding posts profits of Fl 33.1m

By Ronald van de Krol in Amsterdam

NCM Holding, the Dutch private-sector credit insurer which acquired Britain's short-term export credit arm last year as part of a UK privatisation programme, said that after-tax profits in 1991 totalled Fl 33.1m (\$17.9m), just under the record Fl 33.6m posted in 1990.

The 1991 figures are almost entirely composed of NCM's Netherlands operations because the company did not complete its purchase of the short-term insurance arm of the UK's Export Credits Guarantee Department until December 1.

In 1992, the first full year of operations in the UK, NCM said it expects insurance transactions worth £1.4bn (\$2.478bn), while premium income is expected to total £50m. NCM described the UK acquisition as marking a new phase in its existence, leading to a doubling of its business and opening up opportunities for growth in Europe.

Mr Harry Groen, chairman, said the British market's initial response to a new package of products launched by NCM in April was encouraging. In the first month, NCM Credit Insurance, Ltd, the new name of the privatised UK insurance arm, had issued several hundred "quotes" to potential customers and had already closed some business transactions.

The 1992 figures will not include the technical results of NCM's British subsidiary because of the normal three-year lag before these enter the books. NCM Ltd will, however, contribute to NCM Holding's results through its investment income.

NCM's results on direct underwriting in 1991 (which covers the 1987 underwriting year) rose to Fl 42.9m from Fl 32.2m a year earlier, when the books on the 1986 underwriting year were closed. However, results for indirect underwriting swung into a loss of Fl 13.9m from a profit of Fl 10.3m.

## Harpener expects sale by summer

By David Waller in Frankfurt

HARPENER, the German industrial group which made large losses because of its entanglement with Mr Werner Rey, the Swiss financier, is likely to have a new majority shareholder by the summer.

Mr Heinz Sippel, the company doctor who is Harpener's chairman, said yesterday that the group was in the final stages of negotiations with a number of potential buyers.

The majority of the group's shares are held by Swiss and French banks as collateral for the debts of Omni, Mr Rey's former business empire which

went into liquidation last year. Mr Sippel said that advisers to the sale Lazard, Bircklin, Kunz & Co, the Frankfurt arm of the Lazard investment bank, and Lazard Brothers of London, were likely to conclude a deal in time for Harpener shareholders' meeting on July 29.

As expected, Harpener, which has interests in property, energy and transport, yesterday reported a significant turnaround in net profits before extraordinary charges. It made net profits of DM65.5m (\$40.1m) last year compared with a loss of DM95m in 1990. Group indebtedness fell from

DM316.7m in the previous year to DM91m at the end of 1991.

Extraordinary expenses totalled DM93.7m, marginally down on the previous year's DM95.6m charge. As in 1990, the bulk of the charge related to obligations taken over as a result of the Omni affair.

After taking control of Harpener, Mr Rey's Omni used it to buy stakes in a number of loss-making companies. The largest, and most disastrous purchase was of a large minority stake in International Leisure Group, the collapsed UK leisure group. The total cost to Harpener had reached about DM350m, Mr Sippel said.

## Ahold turnover surges to Fl 6.7bn

By Ronald van de Krol

AHOLD, the Dutch food retailer active in the US and the Netherlands, said turnover surged by more than 20 per cent in the first four months of 1992, boosted by last year's acquisition of a US supermarket chain as well as by autonomous growth in existing stores.

The company said operating and net profit in the first quarter of 1992 were also expected to be higher, confirming predictions of growth in full-year earnings, but gave no details. Turnover in the 16-week

period rose by 22.1 per cent to Fl 6.7bn (\$3.6bn), helped by last year's acquisition of the New York-based supermarket chain Tops Markets.

If the chain, Ahold's fourth in the US, is excluded, group turnover was up 8.8 per cent in the period.

In the Netherlands, where Ahold generates just under half of total turnover, sales rose 6.3 per cent to Fl 3.3bn. US sales increased by 34 per cent to \$1.9bn. Without Tops Markets, Ahold's US turnover would have risen by 5.1 per cent.

Besides the Netherlands and the US, Ahold is gradually building up a chain of supermarkets in Czechoslovakia under the name MANA. The company already has five MANA supermarkets in operation and hopes to add many more in 1992.

Mr Pierre Everaert, chairman, told the annual shareholders meeting in Amsterdam that the process of establishing a chain of stores under Czechoslovakia's privatisation programme was proving to be slow, but he said Ahold was making progress.

## Bobst benefits from full order books

By Frances Williams

BOBST, the Swiss paper and packaging machinery concern, posted an increase in consolidated net earnings of 17.9 per cent to SF71.1m (\$46.70m) in 1991, while turnover increased by 9.3 per cent to SF1.13bn. Cash flow rose 22 per cent to SF140.8m.

Mr Bruno de Kalbarmatten, company president, said Bobst had benefited last year from fat order books accumulated in 1990. He expected slower growth in 1992 but more positive developments in 1993.

The Lausanne-based group, which employs 5,400 people worldwide, has adopted EC

accounting standards for its 1991 consolidated accounts. Besides increasing transparency, the move has boosted the group's balance sheet largely by increasing asset values. However, the parent company, Bobst SA, continues to use traditional Swiss accounting methods.

Bobst SA reported a 9.6 per cent increase in net earnings to SF731.9m. The annual shareholders meeting on May 26 will be asked to approve an unchanged dividend of SF34 per registered share and participation certificate and SF6.8 per bearer share. The group boosted share capital by nearly 20 per cent last year to SF755m.

Mr Pierre-André Jolliet, finance director, said the company was considering a simplification of its share structure but had yet to make a decision. Increasing numbers of Swiss companies are moving to a single class of share, abolishing the distinction between registered (voting) shares available only to Swiss nationals and bearer shares which have no voting rights.

The group would continue to strengthen its position in the mid-range of the market, as well as in high-quality products, a strategy that was paying off in developing country markets which account for a quarter of Bobst's sales, the company said.

## REPUBLIC NEW YORK CORPORATION



## Consolidated Statements of Condition

Assets	March 31,		Liabilities and Stockholders' Equity	March 31,	
	1992	1991		1992	1991
	(In thousands of US\$ except per share data)				
Cash and due from banks .....	\$ 336,511	\$ 325,471	Non-interest bearing deposits:	\$ 882,761	\$ 805,158
Interest bearing deposits with banks .....	8,781,642	8,241,852	In domestic offices .....	106,872	225,048
Precious metals .....	412,443	246,186	Interest bearing deposits:	8,898,113	9,583,523
Investment securities .....	10,159,832	7,604,304	In domestic offices .....	10,230,093	8,645,933
Trading account assets .....	258,612	86,886	In foreign offices .....	20,187,859	20,282,660
Federal funds sold and securities purchased under resale agreements .....	1,043,243	503,064	Total deposits .....	3,271,344	1,558,451
Loans, net of unearned income .....	8,281,380	8,636,040	Short-term borrowings .....	1,447,676	2,022,351
Allowance for possible loan losses .....	(233,674)	(236,339)	Accrued interest payable .....	252,506	222,557
Loans (net) .....	8,047,706	8,399,647	Due to factored clients .....	447,702	432,489
Customers' liability on acceptances .....	1,441,816	2,018,833	Other liabilities .....	681,743	493,573
Premises and equipment .....	373,242	383,664	Long-term debt .....	3,824,469	2,401,227
Accrued interest receivable .....	304,739	331,171	Stockholders' Equity .....		
Investment in affiliates .....	531,501	510,918	Cumulative preferred stock, no par value, 8,141,000 shares outstanding in 1992 and 691,250 in 1991 .....	556,925	309,425
Other assets .....	682,810	457,202	Common stock, \$5 par value 150,000 shares authorized in 1992 and 150,000 shares outstanding in 1992 and 150,000 shares outstanding in 1991 .....	250,095	172,050
Total assets .....	\$32,254,187	\$29,109,280	Surplus .....	446,737	532,368
			Retained earnings .....	867,150	702,119
			Total stockholders' equity .....	2,130,166	1,715,962
			Total liabilities and stockholders' equity .....	\$32,254,187	\$29,109,280
The portion of the investment in precious metals not hedged by forward sales was \$4.6 million and \$13.6 million in 1992 and 1991, respectively.					
Summary of Results (In thousands of US\$ except per share data)			Three months ended March 31,		
			1992	1991	
Net income .....			\$ 60,404	\$ 54,670	
Cash dividends declared on common stock: .....			\$ 13,004	\$ 12,043	
Per common share .....					
Net income:					
Primary .....			\$ 1.04	\$ .97	
Fully diluted .....			\$ 1.02	\$ .97	
Cash dividends declared .....			\$ .25	\$ .23x	
Average common shares outstanding (in thousands):					
Primary .....			52,020	51,587	
Fully diluted .....			55,828	51,591	

The portion of the investment in precious metals not hedged by forward sales was \$4.6 million and \$13.8 million in 1992 and 1991, respectively.

Summary of Results (in thousands of US\$ except per share data)

	1992	1991
Net income	\$ 60,404	\$ 54,670
Cash dividends declared on common stock	\$ 13,004	\$ 12,043
Per common share		
Net income:		
Primary	\$ 1.04	\$ .87
Fully diluted	\$ 1.02	\$ .87
Cash dividends declared	\$ .25	\$ .23
Average common shares outstanding (in thousands):		
Primary	52,020	51,587
Fully diluted	55,828	51,594

Republic New York Corporation  
Fifth Avenue at 40th Street, New York, New York 10018  
Member Federal Reserve System/Member Federal Deposit Insurance Corporation/Member New York Clearing House Association

Banking Locations  
New York • Geneva • Tokyo • London • Zurich • Lugano • Luxembourg • Paris • Monte Carlo • Gibraltar  
Milan • Guernsey • Beirut • Miami • Los Angeles • Beverly Hills • Nassau • Cayman Islands • Montreal • Singapore  
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## SAFRA REPUBLIC HOLDINGS SA

LUXEMBOURG

## Consolidated Statements of Condition

Assets	March 31,		Liabilities and Shareholders' Equity	March 31,	
	1992	1991		1992	1991
(In thousands of US\$ except per share data)					
Cash and due from banks .....	\$ 54,289	\$ 41,718	Client deposits .....	\$5,870,652	\$5,884,049
Interest bearing deposits with banks .....	3,025,062	3,006,890	Bank deposits .....	745,185	1,045,726
Precious metals .....	1,126	1,966	Total deposits .....	6,615,837	6,929,775
Investment securities .....	4,399,473	3,845,931	Short-term borrowings .....	1,068,705	314,494
Trading account securities .....	5,323	2,756	Acceptances outstanding .....	9,832	
Loans, net of unearned income .....	1,202,615	1,307,060	Accrued interest payable .....	79,703	84,266
Allowance for possible loan losses .....	(13,916)	(9,331)	Other liabilities .....	51,134	43,044
Loans (net) .....	1,188,799	1,297,729	Long term debt .....	47,993	
Customers' liability on acceptances .....	9,832		Shareholders' Equity .....		
Premises and equipment .....	55,908	48,130	Common stock, US\$ 5 par value, 200,000 shares authorized, 17,831,092 issued .....	89,155	89,155
Accrued interest receivable .....	96,638	123,345	Surplus .....	819,624	819,588
Other assets .....	73,546	80,639	Retained earnings .....	184,686	732,183
Total assets .....	\$8,910,098	\$8,448,104	Less: 130,530 shares held in treasury in 1992 and 32,075 in 1991, at cost .....	(6,560)	(1,396)
			Total shareholders' equity .....	1,086,895	1,049,530
			Total liabilities and shareholders' equity .....	\$8,910,098	\$8,449,104
			Book value per share .....	\$ 61.40	\$ 58.97

Summary of Results (In thousands of US\$ except per share data)	Three months ended March 31,	
	1992	1991
Net income	\$ 22,638	\$ 19,505
Net income per common share	\$ 1.28	\$ 1.10
Average common shares outstanding (in thousands)	17,733	17,799

Safra Republic Holdings S.A.  
32, Boulevard Royal - 2449 Luxembourg - Tel. 4793 31 310 - Fax 4793 31 226 - Telex 3320 RBNBY LU

Wholly Owned Banking Subsidiaries

Republic National Bank of New York (Suisse) S.A.: Head office in Geneva and branches in Lugano, Zurich and Guernsey

Republic National Bank of New York (France) S.A.: Head office in Paris and 1 branch in Monaco

Republic National Bank of New York (Luxembourg) S.A.: Head office in Luxembourg

Republic National Bank of New York (Guernsey) Ltd.: Head office in St. Peter Port, Guernsey

Republic National Bank of New York (Gibraltar) Ltd.: Head office in Gibraltar

Republic New York Corporation owns 48.9% of Safra Republic Holdings SA, which is accounted for by the equity method. On a fully consolidated basis, total assets exceed US\$40 billion and total capital, including minority interest and subordinated debt, exceeds US\$4 billion.

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would take place no later  
November 20.  
the proposal the Swedish  
company Getinge AB, owned  
by Mr. Hans Andersson.  
The chairman, Andersson,  
one the largest shareholders  
in the group, which has  
a 10 per cent stake in the  
group, said the group was  
in a "very strong position"  
after buying the shares  
of the company owned by the  
Swedish banks Nordiska  
and Sjöa.  
The group has gone through a  
period of restructuring and  
is now competing in the  
market, and falling demand  
in the market.  
The group has been a  
success since it began to  
operate on a core business.

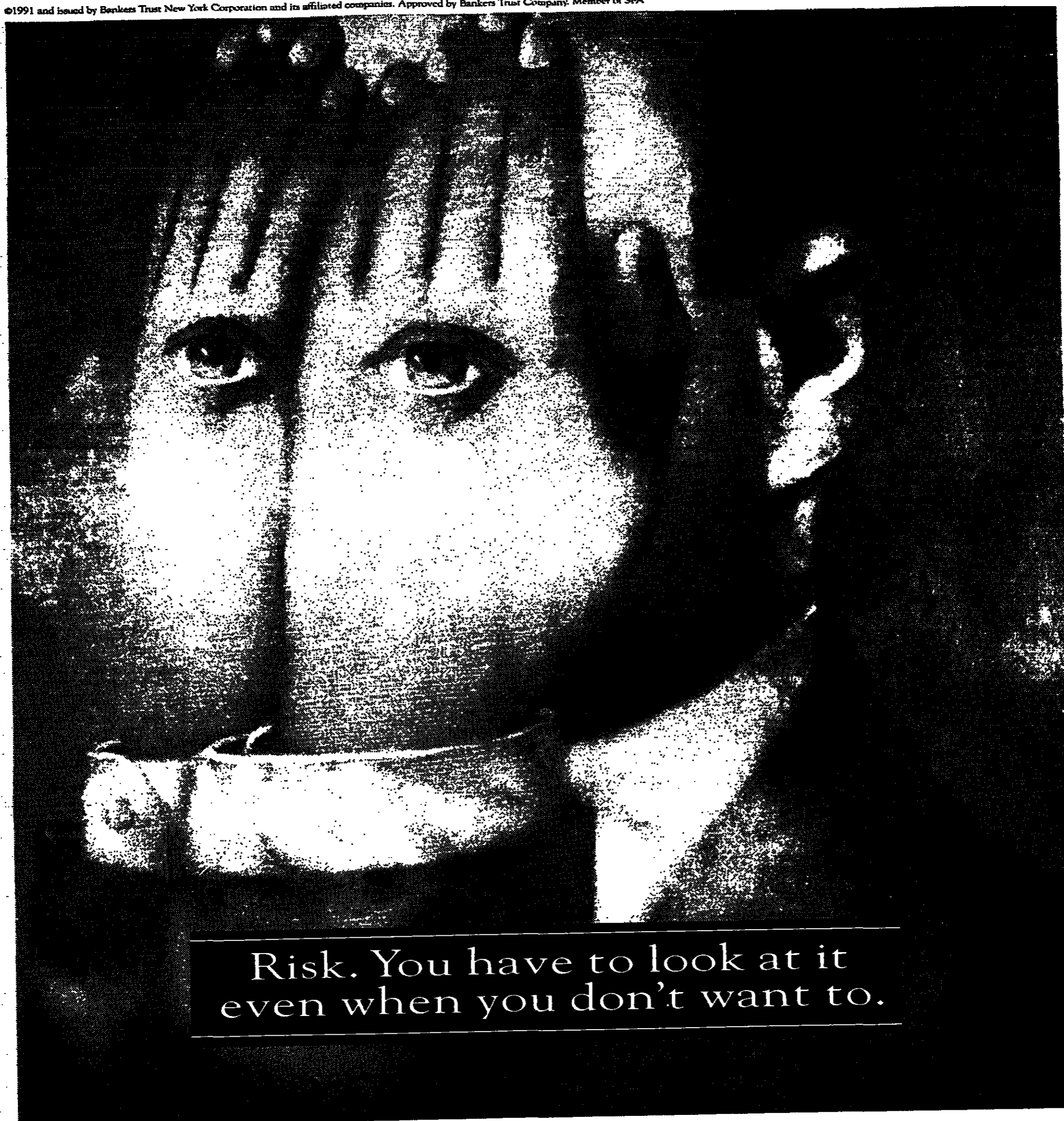
months

and medium-sized  
are designed to strengthen  
core activities.  
Swedish Holding, parent of  
Swedish telecommunications  
group, says it plans to acquire  
remaining participating  
interests, which have not  
yet been converted into  
shares, or bearer shares.  
The group, which had a combined  
turnover of \$2.1 billion in  
1991, has an unchanged dividend  
of 11 per cent.

BBV in accord  
with Tractebel

BBV's Banco Bilbao Vizcaya  
and yesterday it has  
reached a general industrial  
agreement with the  
Belgian utility Tractebel  
group.  
In a short statement, the  
group bank described the  
agreement as "a general accord  
for industrial co-operation in the  
industrial sector".  
The accord will be  
valid until the two companies  
finish defining the  
agreement, a BBV spokesman  
said. The spokesman was  
unable to say how the accord  
will affect BBV's business.  
The accord, however, BBV had  
agreed with Spain's large  
industrial utility, Iberdrola.  
In its statement, BBV said  
it had increased its stake in  
Iberdrola to almost 50 per cent  
of the company.  
The accord has acquired  
a 5 per cent stake in Iberdrola  
from the start of the year.  
The agreement is  
a long-term one, the two banks  
said, and will be a basis for  
co-operation.  
Iberdrola, which has received a concession  
for the privatisation of  
the Spanish utility, Iberdrola  
said it had a stake of 50 per cent  
in the company.  
The accord and BBV's stake in  
Iberdrola will hold 25 per  
cent of the company in the concession  
for the privatisation of Iberdrola.  
The accord is a long-term one and  
will be a basis for co-operation  
between the two banks.

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Risk. You have to look at it  
even when you don't want to.

It's always tempting to focus on reward. But you've got  
to keep an eye on risk.

After all, there's no reward without it.

There's risk in energy prices. Which could make  
investing in, say, a transportation company hugely re-  
warding. Or sadly disappointing.

There's risk in Latin America. And in Eastern  
Europe. But the opportunities there could be larger  
than those at home.

Everywhere you look, there's risk.

Managing risk—conventional and unconven-  
tional—is the single-minded mission of Bankers Trust.  
As merchant bankers, we've honed our ability to help  
you uncover risk, analyse it, take it or shed it, profit by it.

No firm is better equipped to help you see and  
deal with global risk. With Bankers Trust beside you,  
you won't be flying blind.

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LEAD FROM STRENGTH.

## INTERNATIONAL COMPANIES AND FINANCE

## Time Warner forced to cut \$1bn placement

By Alan Friedman  
in New York

A LACK of sufficient investor interest has forced Time Warner, the debt-laden US media and entertainment group, to slash the size of a recent private placement of long-term notes from \$1bn to \$860m.

The company, which plans to use the proceeds to replace bank loans as part of its restructuring of more than \$7bn of group debt, had previously asked Merrill Lynch, lead

agent on the transaction, to raise more than \$1bn by way of a private placing.

A banker involved in the placing said that Mr Ed Aboodi, financial adviser to Mr Steve Ross, Time Warner chairman, had asked Merrill Lynch to raise the \$1bn by placing \$750m of 10-year senior notes and \$250m of 30-year paper.

However institutional investors were not prepared to accept a full \$1bn of Time Warner senior debt, according to an executive involved in the transaction. Time Warner then

agreed to reduce the placing to \$860m of 10-year notes paying 9% per cent and \$250m of 30-year paper at 10.15 per cent. The 10-year tranche was eventually raised to \$860m.

Investors were apparently hesitant due to uncertainty over Time Warner's complicated debt restructuring, including a new \$6.2bn bank loan and the transfer of much of the debt to Time Warner Entertainment (TWE), an 87.5 per cent Time Warner subsidiary that will have both Japan's Toshiba and C. Itoh as

minority shareholders.

The company's ratings, meanwhile, remain below investment grade, although these are expected to be upgraded after the debt restructuring is completed.

After the size of the Time Warner placing was reduced, Merrill Lynch offered the company an additional \$50m as a bridge loan that would eventually be converted into a new 10-year bond with a coupon 200 basis points above the equivalent US Treasury maturity. The bond is expected to be

issued in the second half of 1992.

This transaction was described by Time Warner as a forward underwriting commitment. By July it should allow the company to reduce its bank loan by the same amount.

Time Warner's next step will be to raise a further \$1bn to \$1.5bn cash by seeking to bring US and European partners into its TWE venture with Toshiba and C. Itoh. IBM, the computer company, is among the companies that may be asked to invest up to \$500m in TWE.

## Olympics costs hit net at Turner Broadcasting

By Alan Friedman

COSTS associated with coverage of the winter Olympics contributed to a sharp decline in first-quarter net earnings at Turner Broadcasting System, the media and entertainment group that controls the CNN cable network.

Although revenues were 12 per cent higher at \$365.2m, the first-quarter net profit was only \$731,000, against \$3.8m a year ago. At the operating level, the profit dropped by 9 per cent to \$51.1m.

Revenues for the entertainment division of Mr Ted Turner's company rose by 20 per cent, to \$170.5m, thanks to increases in subscription revenue and advertising at the TNT cable network. However the entertainment unit's operating profit fell to \$16.1m from \$27.5m in the first quarter of last year.

Operating profits from the news division, which includes CNN, increased to \$42.4m from \$31.1m on revenues that were 9 per cent higher at \$125.3m.

Losses on the sports division, which includes an equity stake in the Atlanta Hawks basketball team, rose to nearly \$4m from \$2.1m a year ago.

© The New York Times, whose delivery drivers have been on strike since last week, said the strike had cost millions of dollars. Mr Lance Primis, president of the paper, said the losses consisted of plant and equipment damage, lost sales and rebates to advertisers.

Mr Primis said he was unaware of distribution problems spreading beyond the suburban areas of Westchester County and Long Island in New York, and in Connecticut.

He said there had been bomb scares at the newspaper's Manhattan headquarters and damage to some lorries in the loading bays of the newspaper.

## Singapore group nears Malaysian Credit takeover

CYCLE and Carriage (CCL), the diversified Singapore-based vehicle group, is nearing victory in its months-long battle to take over Malaysian Credit, the family-run property concern, Reuter reports from Singapore.

CCL, which is making the takeover bid in partnership with Hotel Properties, said it had bought an additional 6.1m shares of Malaysian. The partners now own 48.88 per cent of Malaysian Credit's total shares. CCL offered a price of \$82.25 a share when the bid opened on April 10.

CCL, a leading car distributor diversifying into property and food businesses, said last month its takeover offer was conditional on it and Hotel Properties acquiring a combined stake of more than 50 per cent. With a 50 per cent stake, CCL could wrest control of the property group from Singapore's Teo family, which owns about 24 per cent of Malaysian.

Malayan's land bank in Malaysia and its prime office and residential properties in Singapore and Malaysia are expected to blend well with CCL's property portfolio in Singapore and Malaysia.

## Citicorp moves to lift capital ratios with swap offer

By Alan Friedman

CITICORP yesterday offered to swap two types of preferred stock for up to 21.1m common shares, in a move aimed at strengthening its common equity-to-assets capital ratio.

The effect of the stock swap would be to strengthen Citicorp's common equity base on paper by as much as \$537m, increasing the common equity-to-assets ratio from a 3.42 per cent to 3.67 per cent.

The proposal is part of the bank's drive to bolster capital ratios, which are among the weakest of the big US commercial banks. The bank has been raising cash by way of asset disposals and private and public offers of debentures.

The last preferred stock issue was a \$175m public offer in March, which carried a 9 per cent coupon. Last year the bank placed \$1.2bn of preferred stock privately, half of it with a Saudi prince. The rates on

last year's two placings were 11 per cent and 10% per cent.

Ms Nancy Newcomb, Citicorp's senior executive in charge of funding, said the stock swap proposal would offer investors a tax-free and commission-free exchange of preferred stock into the more widely held and actively traded common shares. The bank, in turn, would improve its equity base by issuing common shares representing up to 5.7 per cent of total common stock outstanding.

Mr Tom Hanley, senior banking analyst at First Boston, the investment bank, praised the stock swap offer as "a positive step aimed at getting capital ratios up."

The offer provides for 3.72 common shares to be exchanged for each of 3.9m shares of second series preferred stock, and 4.40 common shares for each of the bank's 1.5m shares of third series preferred stock.

## Flat profits forecast at Citizen Watch

By Robert Thomson in Tokyo

CITIZEN Watch, the Japanese watch and information equipment maker, has blamed slow-down in the domestic economy and a sharp drop in capital spending for a 20.4 per cent fall in pre-tax profit, to Y16.88bn (\$127m), for the year to the end of March.

The decline is expected to be characteristic of Japanese companies' fiscal 1991 results, as is the company's forecast of flat sales and profits for the present year.

For last year, Citizen reported a 4.7 per cent fall in sales, to Y236.2bn, in spite of a 5.9 per cent increase in unit sales of wrist watches at 162.6m. The company said sluggish sales of luxury models were behind a bare 1 per cent rise in watch revenue.

Sales of industrial machinery and equipment fell 18.8 per cent, as Japanese companies

cut capital spending, while sales of floppy disk drives fell 24.3 per cent because of troubled computer markets in the US and Europe. However, sales of notebook-style computers rose 5.3 per cent.

As with many Japanese companies over the past year, Citizen softened the impact of economic slowdown and high interest rates by tapping its cash reserves, which fell from Y73.17bn to Y54.78bn. Meanwhile, it reduced its exposure in the stock market and sharply increased its holdings of bonds, from Y54m to Y9.4bn.

Citizen said the condition of the domestic economy was "still critical", while recovery in Europe and the US appears to have been delayed. For the year, pre-tax profit is forecast to rise 0.6 per cent, to Y17bn, on a 1.6 per cent increase in sales to Y240bn.

## Japanese broker seeks emergency financial aid

By Emiko Terazono in Tokyo

YAMATANE Securities, a second-tier Japanese broker, has requested emergency financial support from Sakura Bank, a leading commercial bank. The request reflects the severe conditions facing the Japanese broking industry.

Yamatane's move comes at a time when the company faces steep losses because of the weak stock market, low dealing volume and compensation payments arising from its involvement in stock manipulation disputes.

For the last fiscal year to March, the broker expects to have run up a pre-tax loss of Y9bn (\$67.68m) and an after-tax loss of Y24.2bn.

Although Yamatane is the first leading second-tier broker to make such a move, there is speculation that others may follow suit.

Second-tier brokers, which

have traditionally relied on broking commissions, have been hard hit by the decline in market activity. The downturn has forced the houses to rely more heavily on unrealised gains on stock holdings, which have also been eroded by the sharp falls in share prices.

Nine of the 10 second-tier brokers are forecasting losses for last year, while most are cutting costs by closing domestic branches and rationalising international operations.

Sakura, which has traditionally enjoyed close ties with Yamatane, said it was considering supplying the broker with low-interest rate loans and sending officials to aid restructuring.

Yamatane also hopes to sell some of its long-term bank shareholdings, which could affect already weak Japanese bank share prices.

## Nampak ahead 14% to R123.4m

By Philip Gawth in Johannesburg

INCREASED volumes, improved market share and higher exports allowed Nampak, South Africa's largest packaging company, to record increased turnover and earnings in the six months to the end of March.

Turnover at the Barlow Rand subsidiary was 13 per cent up at R2.21bn (\$770m), while operating profit was 16 per cent higher at R250.2m.

Improved margins were the result of 2.4 per cent volume growth, improved productivity, plant rationalisation and tight cost controls.

Attributable profit rose 14

per cent to R123.4m. Earnings per share were 13 per cent higher at 258 cents, while the dividend was lifted 5 per cent to 79 cents per share.

Mr Brian Connellan, chairman, said most divisions in the packaging segment had achieved real growth.

Looking ahead, Mr Connellan said although lower interest rates and improved export prospects would help the economy, these benefits were outweighed by the impact of continuing unrest, unemployment and the drought.

He said the level of increase in earnings for the full year was likely to be below the first-half level.

© Two other companies in the

Barlow Rand group reported higher interim profits. Attributable profits at Tiger Oats rose 13 per cent to R154.4m.

While earnings at Imperial Cold Storage (ICS) were 29 per cent higher at R10.8m.

Mr Robbie Williams, chairman of Tiger Oats, said the higher profits, achieved on a 4.4 per cent rise in turnover to R4.4bn, reflected the group's diverse base, strong brands, and the benefits of upgrading plant and technology.

ICS benefited from a restructuring programme introduced 18 months ago, with the 29 per cent rise in earnings achieved on a turnover increase of 8 per cent to R1.2bn.

## Cash call at Australian mining group

By Kevin Brown in Sydney

PANCONTINENTAL Mining, the Australian resources group, yesterday announced a one-for-three rights issue to raise A\$42m (US\$31.50). The issue is intended to finance exploration and strengthen the company's balance sheet by retiring debt.

Mr Lindsay MacAlister, managing director, said Pancontinental wanted to strengthen its overall position before deciding

whether to increase capacity at its Kunwarra magnesite operation in Queensland.

The proposed expansion would increase capacity for deadburn magnesite to 150,000 tonnes a year from 100,000, and boost production of electro-fused magnesite to 26,000 tonnes from 15,000.

Mr MacAlister said Pancontinental would require A\$20m over three years for increased exploration and evaluation of mineral prospects and a fur-

ther A\$20m to optimise capacity at the mines and associated facilities.

Pancontinental said it would concentrate expenditure on the Paddington/Kundana gold mines in Western Australia, the Thalanga base metals operation in Queensland, and the tantalum mine at Wodgina in Western Australia.

The company said about 55.52m shares would be issued with acceptances closing on July 3.

All of these securities having been sold, this announcement appears as a matter of record only.

New Issue

May, 1992

10,000,000 Shares



## International Family Entertainment, Inc.

Class B Common Stock

2,000,000 Shares

The above shares were offered outside the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette  
Securities Corporation

Merrill Lynch International Limited

Smith Barney, Harris Upham & Co.  
Incorporated

Banque Indosuez	Cazenove & Co.	Commerzbank Aktiengesellschaft	Daiwa Europe Limited
Paribas Capital Markets Group			N M Rothschild & Sons Limited
Swiss Bank Corporation	S.G. Warburg Securities		Yamaichi International (Europe) Limited

8,000,000 Shares

The above shares were offered in the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette  
Securities Corporation

Merrill Lynch &amp; Co.

Smith Barney, Harris Upham & Co.  
Incorporated

Beat, Stearns & Co. Inc.	The First Boston Corporation	Alex. Brown & Sons Incorporated	Dillon, Read & Co. Inc.
A.G. Edwards & Sons, Inc.	Hambrecht & Quist Incorporated	Kidder, Peabody & Co. Incorporated	Lazard Frères & Co.
Lehman Brothers	Montgomery Securities	J.P. Morgan Securities Inc.	Morgan Stanley & Co. Incorporated
PaineWebber Incorporated	Paribas Capital Markets Group		Prudential Securities Incorporated
Robertson, Stephens & Company	Wertheim Schroder & Co. Incorporated		Dean Witter Reynolds Inc.
Arnhold and S. Bleichroeder, Inc.	William Blair & Company	J. C. Bradford & Co.	Cowen & Company
Furman Selz Incorporated	Gruntal & Co., Incorporated	Interstate/Johnson Lane Corporation	Kemper Securities Group, Inc.
Ladenburg, Thalmann & Co. Inc.		C.J. Lawrence Inc.	Legg Mason Wood Walker Incorporated
The Ohio Company	The Robinson-Humphrey Company, Inc.		Rothschild Inc.
Stephens Inc.	Tucker Anthony Incorporated		Wheat First Butcher & Singer Capital Markets
L.H. Alton & Company	Anderson & Strudwick Incorporated	Baron Capital, Inc.	Black & Company, Inc.
Branch, Cabell and Company	Davenport & Co. of Virginia, Inc.	Doft & Co., Inc.	First Manhattan Co.
Gabelli & Company, Inc.		Moran & Associates, Inc. Securities Brokerage	Parker/Hunter Incorporated
Scott & Stringfellow Investment Corp.		Seidler Amdec Securities Inc.	Southwest Securities, Inc.
Van Guard Capital		Van Kasper & Company	T.R. Winston & Co. Inc.

## INTERNATIONAL COMPANIES AND CAPITAL MARKETS

## Simint pins Wall Street hopes on Armani

Haig Simonian looks at the latest in a small group of Italian companies to offer shares to US investors

Giorgio Armani, Italy's best-known clothes designer, needs little introduction in the US, where fashion-conscious buyers tend to snap up his creations.

Whether fund managers act the same way towards Simint, the Italian clothing group in which Mr Armani has a 20 per cent stake, is another matter given the lack of international interest in Italian equities.

Simint is the latest in a tiny group of Italian companies which have given US investors the chance to buy their shares via American Depository Receipts (ADRs), issuing ADRs should make the stock more attractive by saving US buyers the bother of going through the Italian market.

In spite of roadshows in Boston and New York last week, it is probably too early to tell whether the operation has

been a success. With the Milan bourse hitting new lows, sentiment towards Italian shares is not at its brightest.

Simint, run by Mr Luca Ramella and chaired by Mr Francesco Micheli, the Milan financier whose Finarte group owns 20 per cent of its shares, has been reinforcing its link with Mr Armani while pinning its hopes on the US.

Last September, Mr Armani announced the creation of a new chain of US shops, called Armani Exchange, or A/X for short.

They aimed to concentrate on jeans and casual wear that were sold through his second-line Emporio Armani chain, while developing new lines of lower-priced Armani-badged products.

According to Mr Armani, the initiative was not so much a move downmarket as an



Micheli: his Finarte group has 20% stake in Simint

Simint is providing the means. The company produces jeans, knitwear and children's clothes for the Armani group, as well as casual and children's clothing for Moschino and Versace, two other top Italian designers.

The purchase in 1990 of Best Company and Marina Yachting, two Italian clothing brands, substantially increased Simint's turnover, which should rise by about 11 per cent to almost L370bn (\$297.2m) for the year ended April, 1992.

Net profits should be in line with the L17.2bn made in 1990-91. But Mr Ramella points out this year's figure includes allowance for the heavy sums ploughed into A/X in the US.

The new venture marks the first time Simint has invested directly in retailing, rather than just manufacturing.

Although the new stores will be closely identified with the Armani group, which will be responsible for design, layout and promotion, it is Simint which is providing the cash as well as making the garments.

The first store opened in New York in December. A second is due to open in Santa Monica shortly, and a further four should be operational by late summer.

Meanwhile, 16 A/X "shop in shops" have opened in five department stores, with a further four to come soon with 10 by late summer.

Turnover had been very encouraging in spite of US consumers' reaction against certain branded items, said Mr Ramella. Sales at the New York showcase store exceeded \$2.1m by the end of last month.

The target is to sell \$60m of goods in the first year.

That should rise in 1993, when there will be additions to the US chain and possibly some European openings too. The first A/X outlet in Europe is scheduled to open next spring.

Stimulating the interest of foreign funds is part of Mr Ramella's efforts to have the company's ordinary and preferred shares, which yesterday closed at L4,680 and L2,803 respectively, re-evaluated.

"News of the A/X project didn't particularly help our share price. Italian investors have a very negative view of such US ventures. It's seen as a big risk, as many Italian companies have gone wrong in that market," he said.

The ADRs, which are being issued by Citibank, could be a way of interesting US investors and filling the gap left by Italian institutions.

## Bank head urges market evolution

By Richard Waters

A SINGLE European stock market for wholesale investors should develop through competition between national markets, not be imposed from Brussels, Mr Pen Kent, an executive director of the Bank of England, said yesterday.

In the first detailed comments by a Bank director on EC investment regulation, Mr Kent argued strongly that rules from Brussels should not be allowed to inhibit the development of London's international share market.

"Imposing a solution could mean losing the benefits of diversity and competition," he said.

His comments were made at a conference in London, organised by the Financial Times, on the international securities markets.

Mr Kent said that the question of stock market transparency - the extent to which details of completed trades are published to the market - was central to the debate. He defended the lack of transparency in London's share market, arguing that greater trade publication would discourage marketmakers from supporting the market. "Revealing more information, through publication, will tend to help the less informed, but will also reduce the appeal of the market place to informed traders."

impose a single system. "The conflict is between real efficiency and the appearance of fairness," Mr Kent said.

His comments had received support earlier from Mr Francois Baccot, director general of SG Warburg and author of a report last year on the development of wholesale share trading in Paris. "The permanent quotation of bid-offer spreads and volumes provides all the necessary information" to keep investors informed, he said.

Mr Baccot said that the debate over EC regulation, which had pitted the UK and French against each other in

**FT**  
CONFERENCE

arguments over the ideal market system, failed to recognise that different systems suited different types of investor. "Instead of asking us to choose one or the other, wouldn't it be better to try and make them work together, since it is certainly in the interest of the markets to offer their members a large variety of trading systems," he said.

Mr Brandon Becker, deputy director of the market regulation division of the US Securities and Exchange Commission, launched a strong defence of immediate trade publication. "Transparency is essential for investor protection, encourages investors to participate in a market and promotes open competition," he said.

## Brazilian paper group plans to launch \$150m offering

By Sara Webb in London and Tracy Corrigan in New York

THE first Brazilian issue in the international equity markets is due later this month, the latest

## INTERNATIONAL EQUITY ISSUES

in a steady stream of Latin American company issues.

Aracruz Celulose, the pulp and paper group, plans to raise \$150m. It will be followed in the autumn by Telebras, the Brazilian telecom group.

Aracruz is expected to attract considerable interest from both the US and Europe, in spite of Brazil's reputation

for high inflation and record of political instability, especially when compared with Mexico, the best developed of the Latin American markets.

Its supporters believe Aracruz will be a success for two main reasons: emerging market investors are hunting around for new Latin American stocks, and analysts are forecasting a recovery early next year in the pulp and paper sector.

The company, which has a leading international position in the production of eucalyptus pulp, generates some 80 per cent of its revenues in hard currencies.

The Aracruz initial public offering, consisting of 10m

American Depositary Shares, is being lead managed by Salomon Brothers. The international tranche will consist of 3m ADSs, while 7m ADSs will be offered in the US and Canada. The proceeds will be used to reduce short-term debt.

In a separate development, the international equity offering for Telcel, the Mexican telephone monopoly, was priced yesterday at \$56.125 per American Depositary Share - the same as the last sale price in the US.

Although the \$1.4bn offering was judged a success, demand from European investors was not as strong as expected and the international tranche had

to be scaled back. Out of a total of 25m ADSs, only 8.65m of the original 9.8m in the international tranche were sold and the remainder were sold in the US and Mexico.

Investment bankers noted that international investors who had already bought Telcel at \$37.25 in last year's international equity offering saw little reason to increase their stake at \$56.125 per share.

linked structure and could prove to be an attractive alternative to straight equity issues and convertible debt.

Enquirer/Star Group, which publishes the National Enquirer and other US publications, launched a \$135m offer of zero coupon notes with warrants to buy 4.86m shares of the company's common stock.

The structure, designed by Salomon Brothers, provides a similar pattern of returns for investors as Low Yield Option Notes (LYONs).

Both structures have tax advantages for investors, but also offer cheaper funding for issuers as the warrants are treated as paid-in capital and a greater portion of the implied

interest is tax-deductible.

While the Lyons structure typically includes a put option, allowing investors to demand early redemption of principal after five years, the Enquirer/Star Group notes have a five-year maturity.

The company is buying warrants from Boston Venture, a venture capital group which owns an equity stake in the company, and then selling similar warrants to investors at a slightly higher price. As a result, the venture capital group is able to sell off its stake at a higher price.

The deal, which closes later this week, is two-and-a-half times oversubscribed, according to Salomon Brothers.

## PAN-HOLDING

SOCIETE ANONYME LUXEMBOURG

## NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of shareholders of Pan-Holding S.A. will be held at its registered office at 10, boulevard Roosevelt, Luxembourg, at 3 p.m. on June 1, 1992, for the purpose of considering and voting upon the following matters:

1. Acceptance of the Directors' and Statutory Auditor's reports, approval of the financial statements for the year ended December 31, 1991.
2. Appropriation of the profits, declaration of a dividend for 1991 and fixing of its date of payment.
3. Discharge of the Directors and of the Statutory Auditor for all actions taken during the year 1991.
4. Re-election of Directors.
5. Determination of the Director's compensation for the year 1991.
6. Re-election of the Statutory Auditor.
7. Determination of the Statutory Auditor's compensation for the year 1991.

The bearer shares may be deposited with any banking or financial institution agreed by the company.

Depository certificates must be received by the company at Boite Postale No. 408, L-2014 Luxembourg, prior to May 27, 1992.

No depository certificate is required with respect to registered shares.

The Board of Directors

## INDIA 1992

The FT proposes to publish this survey on June 26 1992.

This survey will be read in 160 countries worldwide, including India where it will be widely distributed. In Europe 92% of the professional investment community regularly read the FT. If you want to reach this important audience, call

Louise Hunter  
071 873 3238  
or Fax 071 873 3079.

Data source: Professional Investment Community 1991 (MFG Int'l)

FT SURVEYS

## NOTICE OF REDEMPTION

## HMC MORTGAGE NOTES 2 PLC

Class A Mortgage Backed Floating Rate Notes  
Due February 2015

NOTICE IS HEREBY GIVEN to the holders of the Class A Mortgage Backed Floating Rate Notes Due February 2015 (the "Class A Notes") of HMC Mortgage Notes 2 PLC (the "Issuer") that, pursuant to the Trust Deed dated 23rd February, 1988 (the "Trust Deed"), between the Issuer and the Law Debenture Trust Corporation p.l.c. as Trustee, and the Agency Agreement dated 23rd February, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A Notes, Available Funds as defined in the Terms and Conditions in the amount of \$4,100,000 will be utilized on 28th May, 1992 (the "Redemption Date") to redeem a like amount of Class A Notes. The Class A Notes selected by drawing in lots of \$100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A NOTES OF \$100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW									
Bearing Notes									
1940	2016	2025	2034	2082	2155	2162	2187	2189	
2202	2211	2221	2287	2352	2358	2424	2429	2495	
2502	2526	2548	2605	2646	2708	2712	2715	2730	
2745	2762	2790	2830	2837	2875	2913	2943	2951	
2970	3055	3184	3212	3239					

The Class A Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company of New York  
60 Victoria Embankment  
London EC4Y 0JP  
Banques Internationales a Luxembourg S.A.  
2 Boulevard Royal  
L-2953 Luxembourg

Morgan Guaranty Trust Company of New York  
Avenue Des Arts 35  
B-1040 Brussels, Belgium  
Morgan Guaranty Trust Company of New York  
Corporate Trust Operations Department  
Tellers and Mail Unit  
55 Exchange Place, Basement A  
New York, New York 10260-0023

In respect of Bearer Class A Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unmatured coupons and interest appertaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at the specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Trust Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A Notes which are the subject of this Notice of Redemption.

## HMC MORTGAGE NOTES 2 PLC

By: Morgan Guaranty Trust Company

as Principal Paying Agent

Dated: 13th May, 1992

## NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if preemitting your Class A Notes to the office of the Paying Agent in New York.

These Notes have been sold.  
This announcement appears as a matter of record only.



## SOCIEDAD COMERCIAL DEL PLATA S.A. (CADELPLATA)

Buenos Aires, Argentina

9% Notes 1992-1996  
of SFr. 15 000 000.-

Issue Price: 100% + 0.3% Swiss Tax on Negotiation of Securities

The Swiss Francs proceeds of the Notes have been exchanged into U.S. Dollars under a currency and interest rate swap agreement.

Credit Suisse



The Board of Management of DAF N.V., after prior approval of the Supervisory Board, has decided to pay, in respect of the period 1 November 1991 - 31 December 1991, a dividend on the convertible cumulative preference shares amounting to NLG 4,375,000 in total, being NLG 0.35 per convertible cumulative preference share of NLG 5.00 and charge this against the reserves.

On 1 June 1992 this dividend will be available to holders of depository receipts of convertible cumulative preference shares to bearer, after deduction of withholding tax, through the intermediary of the institutions, where the dividend sheets of the depository receipts were deposited on 8 May 1992 at office closing.

The dividend will be paid to holders of registered depository receipts of convertible cumulative preference shares on 1 June 1992, after deduction of withholding tax, to the bank account designated by them.

Eindhoven, 13 May 1992

STICHTING TRUSTEE DAF (STD)  
Administrator:  
Administratiekantoor van het Algemeen  
Administratie- en Trustkantoor B.V.



## Midland chief eases Hong Kong fears over offer

By Simon Davies  
in Hong Kong

A PRESENTATION yesterday by Mr Brian Pearce, chief executive of Midland Bank, to Hong Kong's investment community has resulted in a growing sense that the Hongkong and Shanghai Banking Corporation's bid for Midland can succeed and that it would benefit the banking group.

Fund managers had expected few revelations.

But Mr Pearce said Midland Bank will appeal on provided reas- Friday to a hearing of the full court to the court of the Takeover Panel.

HSBC share-follower yesterday's ruling by the court, Mr Pearce said, was a "very important commitment to land should provide Lloyd's with the merger and financial information it has his view that already given to Hongkong and the counter-bid Shanghai Banking Corporation."

There had been considerable initial scepticism towards the deal from Hong Kong investors. They were opposed to the dilution of high growth south-east Asian earnings through the acquisition of a European bank. Suspicious remain as to the real benefits of global banking.

"The arrival of Pearce has helped develop an understanding of Midland by Hong Kong investors. It also shows he is keen and it shows he gets on

well with the Hongkong Bank," said Mr Peter Phillips, portfolio manager at Fidelity International Investment Management.

"I can't think there will be enough opposition to block it. Given the dispersion of shareholdings, if there was any opposition to the bid, we would have felt the groundswell by now," he said.

Fund managers said the meeting provided reassurance that Midland's earnings cycle was in a strong recovery phase, while Lloyd's Bank's interest in Midland had already helped persuade analysts that HSBC could be on to a good deal.

The HSBC share price reacted favourably to the Pearce presentation, climbing 25 cents to HK\$44.50.

The main concern in Hong Kong remains the possibility of the bank being forced to sweeten its offer. This will clearly depend on the existence of concrete alternative bidders. But analysts took encouragement from the comments of Mr John Gray, HSBC's deputy chairman, who also attended the meeting. Mr Gray would not directly discuss the possibility of a higher offer, but he pointed out that such a move would be likely to hurt the HSBC share price. This would lower the value of the offer for Midland, which has now risen to 422p, compared with 378p when the offer was announced on April 14.

## Hopes of savings may be over-optimistic

By Robert Paston

THE HOPES of Lloyd's and Hongkong and Shanghai Banking Corporation of making big immediate cost savings if either of them buys Midland Bank may be over-optimistic.

That is the implication of a detailed study of European bank mergers by Salomon Brothers, the US investment bank, and Mr Steven Davis, the banking consultant and founder of Davis International.

Mr Davis argues, on the basis of an investigation of nine mergers involving big European banks, that shareholders in those banks have benefited only modestly from post-merger cost cuts.

He says: "While many European merger partners have largely achieved targeted savings in staff, branch numbers and overall expense levels, we believe that most if not all of those economies could have been obtained without the merger."

The combination of Aegion Bank Nederland and Amsterdam-Rotterdam Bank, which was announced in 1990, was in one sense a model for Lloyd's proposed bid. It involved the merger of two of the Netherlands' biggest banks, of roughly equal size, to create by far the largest Dutch bank, now called ABN Amro.

Mr Davis highlights two pitfalls in ABN Amro's attempts to make cost savings. It did not want to make forced redundancies, so was forced to pay more than projected in voluntary severance packages. Lloyd's has also said that it hopes not to make forced redundancies in meeting

its target of reducing staff numbers at the combined banks by 20,000.

Potential redundancy costs are less of a concern to Hongkong Bank, since it has relatively small operations in the UK and therefore would be unlikely to shed staff in great numbers.

ABN Amro also encountered problems in linking the computer systems. It is unlikely to unify the administration or back office systems till late 1994. This is relevant to both Hongkong Bank and Lloyd's, since both hope to make savings by unifying their computer systems with Midland's.

As a result of such redundancy costs and systems problems, Mr Davis is "not optimistic about the possibility of realising significant net cost savings [at ABN Amro] in the near future."

Mr Davis also argues that mergers tend to work better, in terms of generating additional profits, if the managers of one bank become the dominant force in the combined banks.

A failure to eliminate managers is costly in itself. But a multiplication of managers often also leads to delays in the process of making decisions on how to reorganise and reduce overheads.

Lloyd's Bank has to date not spelled out its proposals for top management. Hongkong Bank is planning to retain most of Midland's senior directors, who would run Midland as an autonomous subsidiary.

However, Hongkong Bank's directors would fill the senior positions in the parent company and therefore play the dominant role.

## Hongkong chief says 'no material' redundancies

By David Owen

HONGKONG AND Shanghai Banking Corporation intends making "no material" compulsory redundancies should it succeed in taking over Midland Bank, according to Mr William Purves, chairman.

In a private letter to Ms Marjorie Mowlam, Labour's corporate and City affairs spokeswoman, Mr Purves also said that Midland management would be "very much as it is today" albeit with the addition of "a number of executives who know the HSBC group well."

These additional managers would "help to ensure that synergy benefits are quickly achieved." Midland's "highly selective" rationalisation of its branch network would "continue under its own management."

Lloyd's Bank, Hongkong's rival for Midland, has also said that it plans no compulsory

redundancies while admitting that 20,000 job cuts might be necessary.

Rift, the banking union, has claimed that a Lloyd's takeover would jeopardise at least 30,000 jobs as the bank brought its combined staffing level down to that of their remaining competitors.

Mr Purves, who is due today to meet with Conservative backbenchers, was complimentary about Midland's management in a number of areas, saying he had been "personally impressed" by their record of innovation.

He sought to emphasise how four years of co-operation had resulted in Hongkong Bank and Midland becoming quite familiar with each other's operations.

"The banks know each other very well. We have been working together for four years now with cross secondments of senior people between both banks."

## Evode sells part of shoe business to cut debt

By Peggy Hollinger

EVODE, the adhesives, sealants and coatings company, moved to strengthen its balance sheet with the announcement yesterday that it is selling, for £11.9m, the shoe components business acquired as part of its protracted bid battle for Chamberlain Phillips in 1988.

Mr Andrew Simon, chairman, said the proceeds would be put towards the group's debt which was £46m at the end of September. On a pro forma basis, Evode would have gearing of about 61 per cent after the sale, he said, compared with 78 per cent in September.

The decision to sell was due to the sharp slowdown in footwear sales and the aim to focus on adhesives and coatings. The division represented about 30 per cent of the original Chamberlain Phillips business with sales of £48m and profits of £1.7m for the year to September 28.

The business has been sold to Mr Dan Sullivan, a US investor, and Legal & General Ventures. Some £3.7m will be paid in cash.

## Fenner falls 38% to £2.3m and halves pay-out

By Jane Fuller

THE ABSENCE of a recovery in its UK businesses led Fenner, the engineering group, to halve its interim dividend and to warn of a similar cut in the final payment. Its share price fell 38p to 86p yesterday.

An uncovered dividend of 1.7p (3.45p) was announced alongside a 38 per cent fall in pre-tax profits to £2.28m (£3.71m) for the six months to February 29.

The UK part of the business, which accounted for about 40 per cent of the £97.7m (£100.5m) turnover, incurred a loss after interest. This aggravated the problem of unrelieved ACT and the tax rate rose from 53 per cent to 62 per cent.

After a minority charge of £685,000 (£728,000), mainly

relating to the 50 per cent-owned South African subsidiary, earnings per share fell to 0.41p (2.38p).

Mr Peter Barker, chairman, said power transmission had been worst hit by the UK recession.

Other UK companies were profitable, including conveyor-belt manufacture which had been concentrated on Hull after a closure in Scotland.

A further 5 per cent of the UK workforce had been made redundant, bringing the total cut to 20 per cent - well over 400 jobs. Altogether cost cutting moves had knocked £200,000 off operating profit.

One of the group's priorities was to enhance UK earnings, for instance through acquisitions offering rationalisation opportunities.

About 85 per cent of the £4m

(£5.53m) operating profits were made overseas, with South Africa a star performer. Profits held up in North America, where the fluid power subsidiary had a record order book.

In continental Europe, deteriorating demand in France and Germany had had an adverse effect on the UK factories. Australia was undergoing its third depressed year.

Net debt rose from £30.5m last August to £38m, gearing of about 60 per cent. Interest costs were nearly £2m (£2.37m).

● COMMENT  
Fenner is showing all the signs of being squeezed for cash. Halving the dividend will save £3.5m this year and capital spending has been cut from £8.5m to £4m, two thirds of depreciation. Interest cover has shrunk to roughly 1.5, if you

leave out the 50 per cent of the South African business that it does not own (South Africa accounted for nearly half of operating profit). Year-end gearing will still be near 60 per cent. In terms of trading, the most encouraging area is North America. In the UK, demand in the capital goods sector remains depressed and Fenner will not be an early recoverer. Meanwhile, continental Europe and South Africa are deteriorating. A full-year pre-tax profit forecast of £1.5m leaves the prospective p.e. ludicrously high after big tax and minority charges. It still looks high on a 57m forecast next year. Dividend support? A halved total gives a prospective yield of 6.8 per cent, above the market but not sufficiently so to give cast-iron support.



Peter Barker: UK business incurred a loss

## Holmes Protection improves restructuring terms

By Richard Gourlay

HOLMES PROTECTION, the US security company, yesterday said it had improved the terms of a restructuring agreement with its lenders and expects to announce a crucial \$37m (£21m) share issue next month.

The company, which does most of its business in the US

but has a London quotation, first agreed a restructuring in February with seven North American institutions which are owed \$70.5m on loans now in default.

New management, under the chairmanship of Sir Ian MacGregor, former chairman of British Steel, still has to raise at least \$27m through the share sale in order to remain a

going concern.

The new deal involves the lenders swapping their debt into a minimum of 15 per cent of the equity in return for \$28m raised in the share sale.

The earlier agreement envisaged lenders taking 15 per cent in return for a payment of \$33.5m.

The new structure will give Holmes an additional \$5m of

working capital and was good for shareholders, said Mr Eric Kohn, chief executive.

The seven lending institutions have also agreed to subscribe up to \$10m of the \$37m share issue if necessary, which would leave them with a 40 per cent stake in Holmes.

Under the new deal, lenders will also hold unquoted warrants equivalent to 5 per cent

of the enlarged capital. These can be exercised at the issue price after 12 months.

Smith Barney Harris Upham, the US securities house, is acting as agent for the US private placement; Peel Hunt is acting as the company's stockbroker; and Brown Shipley, the London Merchant bank, is sponsoring the deal which still requires shareholder approval.



## General Accident

## RECOVERY UNDER WAY

### 3-MONTHS' RESULTS

	3 Months to 31.3.92 Estimated £m	3 Months to 31.3.91 Estimated £m
General Premiums	853.9	780.2
Life Premiums	165.1	104.0
Net Investment Income	97.1	84.5
Underwriting Loss	(129.6)	(162.2)
Loss before Taxation	(29.2)	(74.7)
Loss attributable to Shareholders	(23.6)	(58.8)
Earnings per share	(5.4p)	(13.6p)

Reduced UK underwriting losses as benefits from higher premiums and reduced costs begin to show through.

- Improved result in United States.
- Other overseas territories perform well apart from France, with outstanding results in Canada, Ireland and throughout the Pacific.
- Substantial further growth in Life operations.
- Strong growth in net investment income - up 8.6%.
- Current solvency margin 42%.
- Improving trend expected to continue.

Nelson Robertson, Chief Executive, commented:  
"We are confident that our recovery is well under way and that it is soundly based."

## General Accident plc

General Accident plc, World Headquarters: Pitheavlis, Perth, Scotland PH2 0NH

## COMPANY NEWS: UK

## Chink of light but shares marked down 9p after profit taking GA cuts first quarter loss to £29m

By Richard Lapper

THERE WAS a chink of light for the UK's beleaguered general insurance sector yesterday when General Accident, the third biggest of the UK's composite companies, showed a reduced pre-tax loss for the first quarter.

Losses for the three months to March 31 amounted to £29.2m, slightly ahead of expectations and an improvement of £45.5m compared with the same period of 1991.

This was "a move in the right direction by anybody's standards," said Mr Nelson Robertson, chief general manager.

GA's satisfaction was marred, however, by the response from the market which marked the shares down 9p to 499p, a fall which largely reflected profit taking by traders after a strong performance by the shares over the last month.

First quarter losses per share were cut to 5.4p (13.6p).

Underwriting losses were down 20 per cent to £129.8m (£162.2m), with losses in the UK down by nearly a third to £85.2m (£122.8m).

The underwriting improvement reflected a series of premium increases over the past 15 months and comparatively light weather-related losses.

A decline in subsidence claims and the impact of premium increases reduced losses in the UK homeowners' sector to £7.8m (£30.9m). Commercial property losses also fell to £9.7m (£21.7m), although the London bombs of April 10 and 11 will cost a further £6m in the second quarter.

Rising claims costs in motor business are holding back improvement in the UK motor sector, where underwriting



Nelson Robertson: a move in the right direction by anybody's standards

losses amounted to £26.5m compared with £32m a year earlier, despite heavy premium increases during the past 12 months.

Investment income was up to £110.4m (£102.7m) and, adjusted to take into account interest paid, to £97.1m (£94.5m).

Estate agency losses were down to £4.5m (£5.2m) and profits from life businesses emerged slightly lower at £7.8m (£8m).

The group's financial position has also improved marginally over the first quarter. Net assets per share amounted to 317p (as of May 8), up 1p on the

316p recorded at the end of 1991. The solvency margin (the yardstick measuring net assets as a percentage of non-life premiums) was down marginally at 42 per cent (42.6 per cent).

### COMMENT

After over a year in the doldrums, the last few weeks have seen the composites outperform the market by 15 per cent, a performance bettered only by the more obviously politically sensitive water stocks. Although there is some concern that the shares are now trading at too high a premium to net asset value, most ana-

lysts were inclined to attribute yesterday's fall simply to profit taking. The results indicate that the general insurance sector may be entering a recovery phase in its traditional cycle with recent premium increases feeding through into improved underwriting results. GA, which has only a minimum exposure to domestic mortgage indemnity business, is - barring major accidents - well placed to benefit. It appears bound to significantly reduce - and possibly eliminate - its pre-tax losses this year. The figures are also encouraging on the dividend front.

## Union Intl gets closer to agreement on debt standstill

By Peggy Hollinger

UNION International, the heavily indebted trading arm of the private Vestey Group, is putting the finishing touches to a standstill agreement on £350m debt owed to some 70 banks.

Mr Paul Taylor, the former Lloyds executive who joined as Union's finance director in March, said yesterday that the group was "a long way down the road" to completing the agreement.

The standstill, expected to be announced in July along with 1991 results and a rationalisation programme, would run to December 1994.

The Vestey family - which controls the Vestey Group, one of the UK's largest private companies - will provide an injection of more than £35m as part of the agreement, Mr Taylor said, but no more. Union has had to give the banks certain covenants, such as the disposal of assets. Several asset sales were under way, Mr Taylor said.

The announcement last week that 600 of its 1,006 Dewhurst butchers shops were to be sold formed part of the disposal programme. However, the announcement had also in part been prompted by the fact that the 600 shops were incurring losses.

He said Union had also discovered possible fraud - amounting to between £1m and £2m - at one of its businesses.

Some of the money had been recovered and Union was considering legal action.

## N America restrains overseas growth for Marks and Spencer

By John Thornhill

MARKS AND Spencer's international businesses recorded a mixed performance in the year to March 31 with good growth from mainland Europe and south-east Asia being offset by another weak performance from North America.

But the bulk of the group's business is still conducted in the UK where sales suffered as a result of the recession, slipping by 0.6 per cent to £4.92bn. Turnover from clothing and general sales fell 2.4 per cent to £2.7bn with the food division rising 1.7 per cent to £2.22bn. Operating profits rose from £503.1m to £538.7m.

The company provided further details of its retrenchment in Canada where it was reducing its stores by 31 to 42 at an exceptional cost this time of £30m.

Earlier this month, M and S announced it was in talks to dispose of its Peoples Division. A £13.8m extraordinary provision was made on the anticipated loss on the disposal, writing off a further £16m in goodwill.

M and S had previously wrote off goodwill in its reserves. This year's provision in its profit and loss account is to comply with new accounting procedures. The company stressed this would have no additional impact on cash flow or reserves.

The Brooks Brothers chain in the US and Japan, which has struggled in the face of tough retail markets in North America, lifted profits from £11.1m to £18.2m (£10.2m).

Brooks spent £8m in capital expenditure and shut one store while relocating two others. Another seven outlet stores will open by mid-year although

Brooks warned that its Japanese offshoots were beginning to detect signs of a weakening economy.

The 17-store Kings Supermarkets chain in the UK spent £7m in capital expenditure but its sales and margins suffered from competitive discounting.

Sir Richard Greenbury, chairman and chief executive, said: "Things are beginning to improve but there will not be any quick fix in America. It will take between three and five years."

The emphasis on overseas expansion is increasingly being directed at mainland Europe, where the number of stores increased by five to 17 with Nantes, Toulouse, Liege, Amsterdam and Seville being added to the list. Yesterday the company opened another store in The Hague in the Netherlands.

Mr Keith Oates, finance director, said the company was continuing to see productivity improvements in both stores and head office. "We have not only increased our profits but also our profitability," he said. The company spent £305m in capital expenditure last year of which £227m was in the UK

and the Irish Republic. About £41m was applied to upgrading computer systems helping to improve stockturn and drive down inventory costs.

The number of full-time equivalent (FTE) staff in the UK and Irish Republic fell from 38,970 to 35,850 as M and S flexed its cost base but productivity per FTE grew strongly by 15 per cent to £17,800.

M and S added 535,000 sq ft of trading space during the period with four edge-of-town stores, two town centre shops and five neighbourhood stores in the UK.

The company had net borrowings of £261m at the year end representing gearing of 3.7 per cent, down from 13.5 per cent a year before. Interest income was £10.8m (£13.5m).

By region operating profits were UK and Irish Republic £588.7m (£563.1m), continental Europe (£20.4m), US £14.5m (£10.3m), Canada £5.8m loss (£3.6m) and Far East £5.4m (£3.3m).

The company's financial activities, including treasury, insurance and financial services functions, contributed £23m (£20.1m) to profits.

## Worcester falls to Bosch as offer goes unconditional

By Maggie Urry and Norma Cohen

ROBERT BOSCH, the German conglomerate, yesterday declared its £71.8m offer for Worcester Group, the central heating boiler maker, unconditional.

It has acceptances or has acquired shares totalling 51 per cent of Worcester's ordinary equity.

The offer, of 25p a share in cash or loan notes, will remain open until further notice. Worcester shares fell 2p to 219p yesterday, after the Takeover Panel ruled on Monday against an appeal by a group of shareholders which had been unhappy with the terms of the offer.

These investors, with 27 per cent of the shares, were concerned about a deal struck between Bosch and Worcester's management under which the management would have a continuing equity interest in the business. They also felt the price being offered was too low.

It emerged yesterday that the Takeover Panel was divided over its decision to allow Bosch to proceed with its offer for Worcester. Following presentations by both sides, several panel members privately expressed concerns that the offer talks failed to take account of the interests of non-management shareholders. Members of Worcester's management and their families have 38.4 per cent of the group's shares.

There were also concerns about the message that approval of the bid would

send to other continental companies considering making a UK acquisition.

While the matter never proceeded to a formal vote, members were said to have been persuaded by the argument that Bosch's offer contained considerable equity risks for Worcester's management who will be shareholders in the newly-formed Bosch subsidiary.

The dissenting investors have yet to decide whether to reject their shares or accept the offer. They could continue as a minority in the hope of obtaining a better price for their shares later. However, the position of minority shareholders in such circumstances is not often strong, and few have been successful in negotiating a higher offer. They could find that the stock market quotation of the shares is lost, making it difficult to trade in the shares, and that dividend payments are small.

A minority with over 25 per cent of the shares could prevent Bosch from passing special resolutions which might be necessary to restructure Worcester's business, or merge it with Bosch's Junkers subsidiary.

But continental companies are accustomed to dealing with minority shareholders. Bosch's readiness to declare the bid unconditional suggests that it is not overly concerned by the threat.

If more than 90 per cent of investors accept the offer Bosch can apply to the court for permission to buy the rest compulsorily.

## Expanding network for GWR

GWR Group, the USM-quoted independent radio contractor, is to add Isle of Wight Radio (Holdings) to its growing roster of local commercial radio stations in the south of England, with a recommended £257,000 bid.

GWR is offering 10 new ordinary shares for every 56 IoW Radio shares. That values each IoW Radio share at 50p, based on GWR shares at 288p, up 3p yesterday.

IoW Radio has net assets of

£205,800 and tax losses of £290,000. In the year to October 31 it achieved turnover of £494,226, and Mr Ralph Bernard, GWR chief executive, said it was "close to break-even".

IoW Radio's advertising will be wrapped up in, and will extend by 25 per cent, 2CR's (Two Counties Radio) marketing area around Bournemouth. It is estimated that it will contribute about £500,000 to GWR's turnover and £100,000 to profit.

## Futura sells safety shoe offshoot

Futura, the Greater Manchester-based shoe company, shares in which were suspended in March pending clarification of its financial position, yesterday sold its Honeywell safety footwear business to Lambert Howarth

for £996,769, writes Richard Gourlay. The company also said that Mr Bev Oates, its chief executive, resigned on May 5. Proceeds of the disposal will be used to repay bank debt.

### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Contra-Cyclical	4.5	June 30	-	11.25	-
Donelson Tyson	1.2	Aug 27	1	1.2	1
Fanner	1.7	Aug 5	3.45	-	8.55
Marks & Spencer	5	Aug 7	7.1	-	8.7
McLeod Russell	2.75	July 16	2.75	-	8.55
Narboro' Plants	0.5	June 29	0.5	-	1.5
Vaux	3.25	July 3	3.1	-	9.2

Dividends shown pence per share not except where otherwise stated.

### BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the decisions shown below are based mainly on last year's transactions.

TODAY		
Infocash	Avon Rubber, Diptera, Greenleaf, Scottish Value Trust	
Pharm	Allied Irish Banks, City of Oxford Inv Trust, Fidelity, Gen Frank G, Selwyns (L), Yorkshire	
FUTURE DATES		
Alston	May 21	
Calson	Sep 16	

Countrywide Properties	May 18
Daily Mail & General	June 10
Dobson Park	May 21
Plasencia	
Sabcock Int	May 29
Sels	May 15
Calson	May 27
Calson	May 27
Corporate Services	May 27
Halls Home & Gardens	May 18
Jervis Peter	May 22
Latham (Mersey)	May 18
Leighton (Mersey)	May 18
New Thompson Trust	June 10
Pharm	May 21
Salmon Int	May 21
South West Water	May 18
Thorn EMI	May 29

Copies of the report and accounts for 1991/92 will be mailed to shareholders from 22nd June.

MARKS & SPENCER

## Surprise move follows Countrywide's downgraded forecast

# Bank of Scotland in NZ\$53m bid

By Terry Hall and James Staddon

THE BANK of Scotland yesterday announced it was making a full bid for the Countrywide Bank at a cost of NZ\$53m (£15.8m).

The surprise move followed a downgrade in Countrywide's forecast profits this year and difficulties in raising equity capital from minority shareholders.

Under last month's agreement, Bank of Scotland was to take a 60 per cent stake in the enlarged Countrywide, following the latter's purchase, for NZ\$182.5m, of the United Bank from the troubled State Bank of South Australia.

As part of that deal, Bank of Scotland announced it was buying a 20 per cent holding in Countrywide from General Accident, the UK insurer.

It would underwrite Countrywide during its expansion and capital raising, which would make it the sixth largest retail bank in New Zealand.

However, a statement from Countrywide yesterday linked Bank of Scotland's decision to make the full bid to Countrywide's demand for capital following the United takeover.

It said equity of about NZ\$180m, compared with Countrywide's current capital of NZ\$123m, would be needed to replace short-term funding needed to buy United.

The statement to the New Zealand stock exchange said Countrywide's profit for the year to June 30 would be "disappointing".

Normal trading profits after

tax would fall to about NZ\$9m (NZ\$17.9m) as a result of continuing pressures on interest margins and had debt positioning.

Combined with the extra costs that would be involved in taking over United, that had led directors to re-evaluate prospects of raising the extra capital required in the present market through the planned cash issue.

Countrywide directors said that a "closer examination of the problems involved" had led to the conclusion that Bank of Scotland should accept full responsibility for the long term capital needs of United.

A significant reduction in minority holdings would have occurred had Countrywide gone ahead with the cash issue, they said.

All directors, including three independents, supported Bank of Scotland's bid of NZ\$2.05 a share, the same as paid to General Accident for its holding. Before the takeover, Countrywide shares were trading at NZ\$1.90.

Bank of Scotland explained yesterday that it had decided to purchase the outstanding 40 per cent stake in Countrywide when it became clear that raising extra capital through a rights issue would have been expensive for minority shareholders.

It would have had to underwrite the rights issue and would probably have ended up increasing its stake in Countrywide in any case.

It was therefore better, the bank said, to make an outright offer for the remaining stake.

## Donelon defies the sector trend with £3.1m

By Andrew Taylor, Construction Correspondent

DONELON TYSON yesterday became one of the few construction groups able to boost even a small increase in profits and dividend for last year. The announcement lifted the shares 3p to 44p.

Pre-tax profits moved up from £3.03m to £3.06m, despite a 15 per cent decline in turnover to £80.9m. A substantially reduced tax charge led to an increase in earnings per share from 4.01p to 4.51p.

As a result the dividend is lifted 20 per cent to 1.5p (1p), when many construction companies have been struggling simply to maintain payments.

Mr Sean Donelon, chairman, said the group had performed well in difficult markets. He expected to maintain modest progress in the current year.

The group steered clear of speculative residential and commercial property developments, and had not been required to make costly write downs on land bought in the late 1980s.

One of its strengths is its tunnelling business, which sells almost entirely to British water companies. About a third of contracting turnover - down from £59m to £58m - was generated from tunnelling.

Contracting profits, however, slipped to £4.5m (£5m) on lower turnover from general construction. Contracting margins held up against the current market trend.

Property development profits fell to £450,000 (£720,000) and merchandising profits to £388,000 (£572,000). On the other hand losses from the industrial insulation business, which is being discontinued, were cut to £1m (£1.8m).

Net debt of £14m at the year-end of the Birmingham-based group, said that all Cronite's subsidiaries were now trading profitably. Mr Pinsent, who controls 0.9 per cent of the Birmingham-based group, said that all Cronite's subsidiaries were now trading profitably.

Mr Pinsent said Cronite's positive cash flow from current trading was reducing gearing, now down to about 50 per cent and falling. By contrast, AFE's was about 100 per cent and would rise with the acquisition. "It would seem that AFE needs Cronite more than Cronite needs AFE."

Mr Pinsent said since the offer in April, the UK stock

## Vaux declines 19% to £15m as recession hits hotel operation

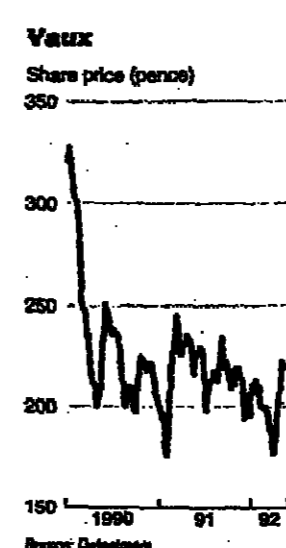
By Philip Rawstorne

THE IMPACT of "continuing deep recession" in the hotel industry reduced interim pre-tax profits at Vaux Group, the Sunderland-based brewer, by 19 per cent, from £18.5m to £15.1m.

Trading profits of the group's Swallow hotels declined from £5.1m to £4.87m during the 24 weeks ended March 14. Occupancies dipped from 56 per cent to 53 per cent and room rates were nearly 4 per cent lower.

Additional financing costs for two new hotels at Bristol and Bexleyheath raised interest charges from £2.47m to £2.7m, and the group incurred a loss of £203,000 on its 50 per cent stake in a Bournemouth hotel.

However, current trading offered a "glimmer of recovery," said Mr Paul Nicholson, chairman. "Although rates remain under severe competitive pressure, our forward



bookings are up 5.2 per cent on last year, giving us hope that the worst may be behind us."

Pre-tax profits were boosted by an exceptional item of £5.5m (£7.2m). Trading profits

were ahead 7.5 per cent at £15.3m (£14.2m) with turnover on continuing businesses up from £33.2m to £39.1m.

Brewing profits rose 20 per cent, from £6.06m to £7.3m, as the breweries, helped by a contract to supply Labatt, the Canadian brewer, with 40,000 barrels of low-alcohol lager, operated at 90 per cent capacity.

Total beer sales were marginally lower against a fall of about 4.2 per cent for the industry in general.

Drought sales, with 104 additional pubs trading during the period, were 2.4 per cent up, but packaged sales in the home market were 5.1 per cent down, mainly in low profit commodity beers.

The care homes achieved an overall occupancy of 89 per cent and lifted trading profits from £1.3m to £1.67m.

Earnings per share fell 11 per cent to 9.35p (10.51p) but the interim dividend is raised to 3.25p (3.1p).

## Reject opportunistic bid says Cronite director

By Peter Pearce

MR DAVID PINSENT, the lone voice on the Cronite board against the recommended £7.3m offer from AFE, the quoted French engineering company, has strongly advised shareholders to reject the "opportunistic" bid.

Mr Pinsent, who controls 0.9 per cent of the Birmingham-based group, said that all Cronite's subsidiaries were now trading profitably.

However, Mr James Lindsay-German, chief executive, described Mr Pinsent's letter to shareholders as a "damp squib", saying it did not worry him as it contained nothing new. "Most of it has been there for some time."

Mr Pinsent said Cronite's positive cash flow from current trading was reducing gearing, now down to about 50 per cent and falling. By contrast, AFE's was about 100 per cent and would rise with the acquisition. "It would seem that AFE needs Cronite more than Cronite needs AFE."

Mr Pinsent said since the offer in April, the UK stock

market had risen about 12 per cent, interest rates had been reduced, and there were growing signs of recovery in the UK economy. He asked: "Could there be a less appropriate time to accept a cash offer for a recovering company?"

Mr Lindsay-German countered by saying that AFE now controlled 26 per cent and had irrevocable undertakings for a further 14.5 per cent.

Cronite returned to the black in the six months to March 31, helped by lower interest charges. Profits were £311,000 (losses £2.21m).

Cronite shares were unchanged yesterday at 45p.

## European Motor 90% rights take-up

European Motor Holdings' recent £17.4m rights issue has been accepted in respect of 15.7m shares (89.9 per cent). Some 17.5m new shares were offered at 105p per share.

Subscribers for the balance of shares not taken up have been procured at a price of 129p per share.

## Profits warning clips 9p from UB share price

By Peter Pearce

Shares in United Biscuits fell 9p to 419p yesterday after Mr Robert Clarke, chairman, warned the annual meeting that there would be "some overall decline" in the group's first-half profits.

He blamed this on "a disappointing first quarter performance and a slower than anticipated uplift in the second quarter" at Keebler, the US biscuits subsidiary.

Last March, Mr Clarke said there had been no sign of an upturn in UB's main markets in either the UK or the US.

He told yesterday's meeting that the position had "not fundamentally changed".

There were now some small signs of recovery in the UK, but US consumers were continuing to trade down to lower value products, thereby impacting on Keebler's branded products.

Mr Clarke expected the rest of UB's business to at least match the previous year's outcome.

## McLeod Russel at £2.05m

CUSTOMERS of McLeod Russel Holdings, the maker of paint and varnish, seem to be becoming more confident about the future, claimed Mr Nigel Openshaw, the chairman.

In his report covering the six months to March 31 he said pre-tax profit had marginally improved to £2.05m, against £1.98m. Turnover was £21m (£20.8m).

Conditions continued to be difficult for the surface coating companies.

The commercial vehicle market remained depressed and average batch sizes were small. The market for Granite Surface Coatings did not improve, although profits rose as a result of cost cutting and improved efficiency.

The market for car paint distribution deteriorated, but marine paints traded at a profit. Earnings per share came to

## Contra-Cyclical meets forecast

At March 31 1992, net asset values at Contra-Cyclical Investment Trust were 34.75p for the capital, 2.85p for the income, and 55.8p for the zero rated preferred shares.

The trust was formed on February 26 1991 and started trading on March 28. For the initial period to March 31 1992, gross income totalled £1.88m and net revenue came to £1.12m.

Earnings per income share were 12.94p and the final dividend is 4.5p for the forecast total of 11.25p.

## Manakin repays 295p per share

Manakin Holdings, the venture capital company formerly known as Abingworth, reported net asset value of 111p at April 15, against 98.9p six months earlier. During the period shareholders have had returns of capital totalling 295p.

The company is in members voluntary liquidation but will

## maintain its listing to allow an orderly disposal of its unquoted investments.

During the period its gilt holdings were sold for £51.6m against a cost of £50.5m. Holdings in quoted US companies raised £14.6m (£3.2m) having cost £3.7m but unquoted company shares raised \$596,000 against a cost of \$1.35m.

The liquidator said further sales would be made and another capital repayment would be made before the end of 1992. Earnings per share for the six months to April 15 were 1.25p. The net profit of £256,594 has been transferred to revenue reserves.

## Personal Assets Trust net assets up 18%

Personal Assets Trust reported a net asset value of 70.52p per share as at April 30 - an improvement of some 18 per cent over the year. Net revenue amounted to £250,000, up from a restated £218,000, for earnings of 1.87p (1.45p) per share. A second interim dividend of 0.85p, making a total of 1.5p for the year, was announced last month.

## Capital and Regional purchase

Capital and Regional Properties has bought a £7.6m property in Kingston-upon-Thames

## from the receivers of Sheraton Securities.

The property, known as Adam Walk and Eve House, has 10 retail units producing an initial £398,500 per year rising to £405,000 per year after two years. It also has a 15,700 sq ft office building, let to the Department of Employment at a rent of £275,000 per year rising to £299,500 per year after two years.

Mr Martin Barber, chairman, described the purchase as "a tremendous opportunity for future rental growth and improving yield as the property market comes out of recession."

## Narborough Plants higher at £176,000

Narborough Plantations, Malaysian-based palm oil and rubber production company, reported pre-tax profits up from £146,000 to £176,000 in the six months to December 31. With no tax, earnings per share were 1.25p (1.1p).

There was a difference on conversion of assets in foreign denominations. Estate operating profit was £80,000 (£54,000) helped by higher palm oil and rubber prices and increased palm oil output but offset by lower rubber production.

An unchanged interim dividend of 0.5p is declared.

## PIRELLI TYRE HOLDING N.V.

Established in Amsterdam

## Shareholders are herewith invited to attend the annual General Meeting of Shareholders

to be held on Tuesday June 2, 1992 in the WTC Club, World Trade Center, Stravinskylaan 1, Amsterdam at 3.00 p.m.

The annual report, including the agenda for this meeting, and the financial statements for the year 1991 as well as the details with respect to the members of the Supervisory Board and the Board of Management to be re-appointed are available for inspection at and may be obtained free of charge from the Company's office and the principal offices of the below mentioned banks.

Holders of bearer shares who (in person or by proxy) wish to attend the meeting must have lodged their shares not later than Wednesday May 27, 1992 at one of the following banks who will subsequently send them a receipt which will serve as entrance ticket:

- in The Netherlands at Pierson, Holding on Pierson N.V., Amsterdam
- in Belgium at Generale Bank N.V., Brussels
- in Germany at Dresdner Bank A.G., Frankfurt a.M.
- in Italy at Credito Italiano, Milan
- in Switzerland at Swiss Bank Corporation, Zurich
- in the United Kingdom at Midland Bank PLC, London

The Board of Management  
The Supervisory Board

May 13, 1992  
Stravinskylaan 627  
1077 XX Amsterdam



## MAES Funding No. 2 PLC

£300,000,000  
Mortgage Backed  
Floating Rate Notes due 2017

Notice is hereby given that the Rate of Interest has been fixed at 10.275% for the interest period 11th May, 1992 to 11th August, 1992.

The Interest amount payable on 11th August, 1992 will be £1,115.76 in respect of each £43,200 Principal Amount Outstanding of each Note.

Agent Bank  
11th May, 1992

## NOTICE TO THE NOTEHOLDERS OF UNIBANK A/S

(Formerly Unibank Norge AS)  
Nkr4,400,000,000  
Nilken-Linked Notes due 1993 (the "Notes")

Notice is hereby given that the Redemption Amount has been determined at Nkr4,400,000,000 in respect of each Nkr50,000,000 Note.

Unibank A/S  
By: The Mitsubishi Bank, Limited  
as the Calculation Agent  
13th May, 1992

## Bührmann-Tetterode

Bearer Depositary Receipts (BDR's) Bührmann-Tetterode N.V.

At the Annual Meeting of Shareholders held on May 12, 1992, a cash dividend for the year 1991 per BDR of NLG 5 nominal value was fixed as follows:

upon surrender of dividend coupon No. 27:

NLG 2.20 cash, less dividend tax of 25%.

Dividend coupon No. 27 may be tendered as of May 27, 1992, for payment at the (head) offices of:

In the UK:  
National Westminster Bank PLC,  
Stock Office Services  
Station Way, Crawley

In Amsterdam:  
ABN-AMRO Bank N.V.,  
Bank Mees & Hope N.V.,  
NMB Postbank Groep N.V.,

Rights to payment of dividend for holders of CF certificates will be made available through the intermediary of the institutions acting as custodians of the coupon sheets to their BDR's at the close of business on May 12, 1992.

Amsterdam, May 13, 1992

Stichting Administratiekantoor Aandelen  
Bührmann-Tetterode N.V.

This notice is important and requires the immediate attention of holders of 5% per cent. Guaranteed Redeemable Convertible Preference Shares. If holders are in any doubt as to the action they should take, they should consult an independent financial adviser authorised under the Financial Services Act 1986 without delay. S.G. Warburg & Co. Ltd. is acting for United Biscuits Finance N.V. and United Biscuits (Holdings) plc in relation to the conversion and redemption of the Preference Shares (as such term is defined in this notice) and is not advising any other person or treating any other person as its customer in relation to such redemption and conversion.

## United Biscuits Finance N.V.

(the "Issuer")  
(Incorporated in the Netherlands Antilles with limited liability)

5 3/4 per cent. Guaranteed Redeemable Convertible Preference Shares 2003 (the "Preference Shares") guaranteed by, and convertible into Ordinary Shares of,

## United Biscuits (Holdings) plc

(the "Guarantor")  
(Incorporated in Scotland with registered no. 26184)

## NOTICE OF CONVERSION AND REDEMPTION

Notice is hereby given to holders of the Preference Shares (the "Preference Shareholders") that pursuant to the Conditions of the Preference Shares contained in the Issuer's Articles of Incorporation and a resolution of the Board of Management of the Issuer dated 21st March, 1988 and published in an Offering Circular dated 22nd March, 1988 (the "Conditions") the Guarantor has determined to revoke its guarantee on 12th July, 1992 and all of the Preference Shares will accordingly become redeemable and will be redeemed on 12th June, 1992 (all in accordance with and as permitted by Condition 7(b)(v)(A) of the Preference Shares). Preference Shareholders are reminded that, notwithstanding the foregoing, they remain entitled to exercise their rights to convert Preference Shares into Ordinary Shares. (Further details regarding the exercise of these Conversion Rights are set out in the penultimate paragraph of this notice).

Each outstanding Preference Share will be redeemed on 12th June, 1992 (the "Redemption Date"). Interest will be paid on the Preference Shares in respect of the period from and including 12th April, 1992 to, but excluding, the Redemption Date and will cease to accrue on any unconverted Preference Shares on the Redemption Date.

Payments of principal and accrued interest will be made, in accordance with the Conditions of the Preference Shares, against surrender of the relevant certificates in respect of Preference Shares at the specified office of any of the Paying and Conversion Agents listed below. Each Preference Share should be presented for redemption on the Redemption Date together with all unmaturing Coupons appertaining thereto, failing which the amount of any such missing unmaturing coupons will be deducted from the sum due for payment on the Redemption Date. Each amount so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time prior to the expiry of 6 years from the due date for payment of such Coupon. Any Preference Shareholder who has not claimed distributions or other rights attaching to the Preference Shares within the period of 12 years from the Redemption Date will not thereafter be able to claim such distributions or rights.

Preference Shareholders are reminded that they remain entitled to exercise their rights to exchange Preference Shares for Ordinary Shares of 25p each in the Guarantor at the Conversion Price of 308 pence per Ordinary Share at any time up to and including close of business on 5th June, 1992. Such rights may be exercised by Preference Shareholders delivering to the specified office of any Paying and Conversion Agent listed below the relevant certificates in respect of Preference Shares accompanied by a duly completed and signed notice of conversion in accordance with Condition 6(c) of the Preference Shares and otherwise in accordance with the Conditions of the Preference Shares.

Preference Shareholders are reminded that Notices of Conversion (in the current form) are obtainable from the offices of any Paying and Conversion Agent listed below.

Principal Paying and Conversion Agent  
S.G. Warburg & Co. Ltd.,  
2 Finsbury Avenue,  
London  
EC2M 2PA

## Paying and Conversion Agents

Kreditbank S.A.,  
Luxembourg, 43 Boulevard Royal,  
L-2955 Luxembourg

Swiss Bank Corporation,  
Aeschenvorstadt 1,  
CH-4002 Basle,  
Switzerland

Issued by S.G. Warburg & Co. Ltd., a member of SFA, on behalf of United Biscuits Finance N.V. and United Biscuits (Holdings) plc.

13th May, 1992

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## COMMODITIES AND AGRICULTURE

## Australian company leads Russian gold chase

By Leyla Boulton in Moscow and Kevin Brown in Sydney

A SMALL Australian company is trying this week to complete the first ever deal giving foreigners a direct stake in Russia's closely guarded gold mining industry.

Star Technology Systems, a private consortium led by Mr Ian MacNee, is negotiating terms with Lenzoloto, a local Siberian gold producer, to buy a 31 per cent stake in all its operations - including the development of the Sukhokol'g mine, said to be Russia's largest proven hard rock gold deposit.

State-owned Lenzoloto holds exclusive government licences for mining operations covering 105,000 sq km (40,000 square miles).

It will be a coup in every respect if the deal goes through.

Star, with recommendation from the Australian Embassy in Moscow, last month overcame a mountain of bureaucratic obstacles and vested interests to reach this stage of negotiations.

The Russian government, which is anxious to attract foreign investment in its effort to introduce a market economy,

had to overcome fierce internal wrangling in order to give Lenzoloto the right to negotiate the participation of a foreign partner.

For Lenzoloto, this represented a considerable triumph: A local producer, it was able to manage its own affairs after decades of tight control from Moscow.

That control was exercised through the centralised monopoly organisation, Glavmashzoloto, which dominated the mining and marketing of gold and precious stones. The organisation, which has since been renamed Rosmashzoloto to cover only Russia rather than the former Soviet Union, led the resistance to the Star project.

Star's achievement so far looks even more impressive considering that standing behind it is Central Mining Corporation - a listed Australian company which is also headed by Mr MacNee and which has an option to buy Star's interest in the joint stock company being set up by Lenzoloto for the purposes of bringing in badly-needed foreign capital.

Central, which made losses in 1989, 1990 and 1991, was suspended from the Australian

Stock Exchange from November to April for failing to file the quarterly exploration and working capital reports required by the Australian authorities.

Its 1991 accounts were delayed because of inquiries which were made by Price Waterhouse, the auditors. And in December 1991, it had working capital of only A\$75,000 (£31,000).

These factors do not constitute an argument against Central Mining's involvement in the project, however. When small exploration companies come up with a big project, they simply look for bigger sources of financing.

But the fact that such a small company - rather than one of the established giants of the western gold mining industry - is now negotiating the first big gold deal in Russia, reflects the difficulties and risks of trying to do business in Russia.

Two years ago, while big mining companies remained on the sidelines, apprehensive about gaps in legislation, continuing political instability and unclear ownership rights, Star began scouring the country for opportunities.

It all began when a husband

and wife team came over to work on a deal to extract platinum from waste left by Russian miners.

Through a combination of luck and coincidence, they also became acquainted with Mr Boris Yeltsin, who said he would support them if they could find a partner in the gold business.

It was a bold challenge at a time when Mr Yeltsin, who was still chairman of the Russian parliament, had not even wrested control of Russian gold resources from the Soviet leadership.

Two years on, Mr Yeltsin is president and the country's supreme master. His young government of economic reformers is actively seeking foreign capitalists in order to underpin its market reforms.

But even now, it is still unclear whether or not the deal will be allowed to go through.

A government official said legal questions remained over whether it could go ahead. He also suggested that there could be problems with the price Star was prepared to pay for the stake, which he put at \$50m.

Part of the problem he explained, was the secrecy that traditionally surrounded the

Russian gold mining industry, which meant that it was "not quite clear what Star would be getting 31 per cent of".

He said Star had managed to get close to the deal because the big companies had not shown any interest. "They usually prefer to have a controlling interest" - while Lenzoloto needed money quickly.

He said the government had not done "much digging" into Star's background.

Mr Grema Ellis, Central's company secretary said last week that it was too early to predict the cost of developing the project, but that the deal would be financed through a mixture of equity and debt.

Central has a shareholder agreement allowing it to expand its capital from 100m shares of 2 cents each to 500m. This implies the ability to raise some A\$80m at last Wednesday's market price of 21 cents, which compares with the 6 cents at which they were relisted last month.

Mr MacNee said capital increase by Central was one of the options being considered, if the company was to be involved at all. "Money is not the problem, the main issue now is getting the documentation right," he said.

## Indonesia's coffee pot begins to overflow

Enthusiastic growers have not been deterred by historically low prices, writes William Keeling

A CHART spread the length of the lobby wall of the Association of Indonesian Coffee Exporters logs the demise of the world price for Indonesia's robusta coffee from 1985. With London robusta contracts languishing at 22-year lows, space on the wall has mercifully run out; the price has literally dropped off the chart.

The response of Indonesia's 1.5m coffee farmers to market forces has been perplexing: whilst reducing exports in an attempt to hold up prices, they are nevertheless expanding production.

The association has forecast exports of coffee at 303,540 tonnes for the year ending September 1992, down 21 per cent from last year. That would compensate for relative over-supply of the market year before trade officials say world demand for Indonesian coffee for blending purposes is between 330,000-360,000 tonnes a year.

Between last October and the end of March, Indonesia exported 78,000 tonnes, and harvesting of the main crop began last month. Production of 476,280 tonnes is forecast this year - continuing the upward trend which has led to 53 per cent growth in production since 1985 making Indonesia the world's third largest producer. The association forecasts production next year of 511,920 tonnes.

Association officials say Indonesia's 1.5m smallholders, who produce 90 per cent of the crop, are stockpiling their harvest. Historically, farmers have normally held between 100,000 and 120,000 tonnes in stock, but by last October stocks had fallen to 47,830 tonnes. The association forecasts that stocks will rise to 145,630 tonnes by September.

The bearishness of the international market about robusta coffee has been exacerbated by expectations of heavy sales from Indonesia over the next few weeks. However, Mr M. Yahmadi, head of the exporters' association's production and quality development department, says the farmers will not rush to the market and points out, "It is common for our farmers to keep coffee as savings. When the time comes they will sell, for instance, to go to Mecca".

The association is also looking for government intervention to help stabilise the export market. It has 1,072 members, but only 300 are active and "making any money". A recent agri-

Papua New Guinea's coffee industry is facing a crisis of confidence, with overseas buyers threatening to withdraw because of quality problems, according to Mr Ricky Mitto, chief executive of the Coffee Industry Corporation, reports Reuters from Port Moresby.

Mitto told reporters that German, British, US, Australian and New Zealand buyers were increasingly reluctant to place orders. Germany's Jacobs Suchard, which normally buys about a quarter of the country's export volume, withdrew last year because of a drop in the quality of premium "Y" grade coffee, said Mr David Smith, the corporation's economist.

"Quality has been gradually deteriorating over three to four years," Mr Smith said. "It really reached a low last year. It basically stemmed from a lot of new, inexperienced exporters."

Mr Smith said a prolonged slump in coffee prices had resulted in many small growers neglecting crops, while government officials said some growers now preferred the more profitable, but illegal, marijuana, which grows wild in Papua New Guinea.

Cultural report by US embassy in Jakarta described the majority of exporters as "now in dire economic straits".

The problem is not just the low world market price but intense competition between exporters within Indonesia. Despite domestic consumption remaining static at 75,000 tonnes a year, the association estimates the domestic price of a kilogram of grade 4 robusta coffee at Rp1,650 (81 US cents), as against an FOB export price of 80 cents.

"Exporters lose Rp200 per kilo," says Mr Noer Madiq, the association's executive secretary, after redrying, handling and bagging costs are included. The only incentive to export, officials say, is to maintain customers while waiting for prices to improve.

The association believes, however, that exporters need to be better regulated and last October set out proposals to government. It wants all traders to register with the association and to deposit with the association between 10 and 20 per cent of the value of all export commitments. The greater the quantity committed to export, the higher would be the percentage of export value deposited. This is to ensure that exporters do not commit themselves beyond their own financial resources or beyond Indonesia's production capability.

A government response to the proposal was expected in January, but none has been forthcoming. Association officials want to implement the plan "as soon as possible" and clearly feel frustrated.

The association has also recommended to its members that they combine into groups to reduce competition and enjoy greater economies of scale but the idea has not met with much response. "Before dere-

gulation we had ten groups. Now we do not know," admits Mr Yahmadi.

Steps are being taken to diversify Indonesia away from robusta coffee, which accounts for 93 per cent of production. The remaining 7 per cent is of the milder and more sought-after arabica variety.

A three year trial programme testing high-yielding arabica plants is being undertaken by the association, particularly for use in the higher altitude areas of north Sumatra. But winning farmers away from robusta will take time. Industry officials expect arabica to increase its share to 15 per cent of production in the next two years but attaining the target of 25-30 per cent of the crop may take "a decade or two", predicts Mr Yahmadi.

Industry officials say there is substantial room for growth in the domestic market, although the price of packaged robusta at Rp12,000 per kilogram in local supermarkets puts it out of reach of the average wage earner.

The association's own figures give cause for pessimism. Production is forecast to outstrip international and local demand by 76,920 tonnes next year. This would leave farmers holding unprecedentedly high stocks of 223,000 tonnes.

The bright spot on the horizon is the strong case Indonesia has for a higher quota if an international coffee agreement is signed. From 1986 to 1990, Indonesia increased exports to quota countries by 49 per cent and the country now accounts for more than 7 per cent of the world export market, association officials say.

"We must be optimistic," says one official with somewhat fatalistic reasoning. "We believe first one day will come to Brazil".

## Sugar organisation cuts estimate of surplus output

THE INTERNATIONAL Sugar Organisation's secretariat has cut its estimate of the world sugar surplus in 1991/92 (October/September) to 510,000 tonnes, raw value, from a previous projection of 1.4m tonnes, reports Reuters.

Production is seen totalling only 112.20m tonnes, compared with the previous estimate of 112.94m tonnes while the consumption estimate has been lifted to 111.69m tonnes from 111.44m tonnes.

Estimates for Cuba, South Africa and Zimbabwe were all reduced sharply to 6.85m, 2.20m and 90,000 tonnes respectively, from 7.3m, 2.4m and 380,000 tonnes.

The ISO said the Cuban esti-

mate reflected export indications and the country's declared intention to harvest "every last tonne of sugar".

"Although this is higher than other analysts we feel it is too early to reduce it further when the crop is still in progress," the secretariat said.

Cuban figures received by the ISO showed exports between November and January totalled 394,000 tonnes, up from 378,700 tonnes in the same period the previous year.

Shipments to Japan rose to 159,900 tonnes from 64,600 while Portugal's rose from nothing to received 66,400 tonnes. Cuban exports to the CIS fell to 286,200 tonnes from 464,200 tonnes.

## Work on Alcan hydro project remains stalled

By Robert Gibbins in Montreal

ALCAN Aluminium will not resume construction on the C61bn Kemano hydro-electric expansion project following last week's federal appeal court decision. It said it would delay any further work until every possible court challenge is exhausted, including a fresh environmental review of the project proposed by the British Columbia government.

Alcan won an appeal in the federal court which overruled native and environmental groups' claims that Kemano II should be submitted to a full federal environmental review.

The shortfall was biggest in south India, which remains under the grip of a severe drought. Out of total production till March of 44.2m kg, south India contributed 23.85m kg, which was 10m kg lower than the crop in the first quarter of 1991. Tamil Nadu the crop fell by 6.9m kg, in Kerala by 3.03m kg and in Karnataka 7.00m kg. In north India, according to Mr Vijay Dubeja, spokesman for the industry, the output decline of 4.55m kg was caused by the absence of early showers in north Bengal, where tea bushes have suffered a large-scale pest attack. And in large tracts of Assam tea plucking has been hindered by the prolonged winter. Parts of Assam have also been hit by exceptionally dry weather. The first quarter north Indian crop was 14.37m kg.

Of the total Indian first quarter crop the share of CTC - cut, tear and curl, the type favoured in Britain - was 33.12m kg, of orthodox 10.65m kg and of green tea 350,000 kg. To cater for the change in demand pattern, particularly

## Indian tea crop 25% behind last year's

By Kunal Bose in Calcutta

THE INDIAN tea crop was down by 14.55m kg in the first quarter of 1992 compared with the corresponding period last year.

The shortfall was biggest in south India, which remains under the grip of a severe drought. Out of total production till March of 44.2m kg, south India contributed 23.85m kg, which was 10m kg lower than the crop in the first quarter of 1991. Tamil Nadu the crop fell by 6.9m kg, in Kerala by 3.03m kg and in Karnataka 7.00m kg. In north India, according to Mr Vijay Dubeja, spokesman for the industry, the output decline of 4.55m kg was caused by the absence of early showers in north Bengal, where tea bushes have suffered a large-scale pest attack. And in large tracts of Assam tea plucking has been hindered by the prolonged winter. Parts of Assam have also been hit by exceptionally dry weather. The first quarter north Indian crop was 14.37m kg.

Of the total Indian first quarter crop the share of CTC - cut, tear and curl, the type favoured in Britain - was 33.12m kg, of orthodox 10.65m kg and of green tea 350,000 kg. To cater for the change in demand pattern, particularly

following the shrinkage in orders from Russia and the other constituents of the former Soviet Union, the Indian tea industry is gradually reducing production of orthodox tea.

According to Mr Dubeja, there have been tea production setbacks in other countries too. Sri Lanka which is in the same agro-climatic zone as south India is yet behind last year's production and the African producers have also been contending with drought.

It is estimated that by the end of April, the world tea crop shortfall could be as much as 40m kg, of which India's share is likely to be 25m kg. Tea industry officials consider it highly improbable that the shortfall can be made good in the remaining period of 1992.

In spite of the sharp fall in production, tea prices remain depressed. For example, at the Calcutta auction, the average price for leaf CTC up to the end of April was Rs38.49 a kilogram (70.5p), compared with Rs41.07 a kilogram in the corresponding period of 1991. As for orthodox leaf, the price has been Rs38.56 a kilogram, down from Rs43.92.

The virtual disappearance of Russian buying earlier in the season is said to have been the principal reason for the depression in tea prices.

## MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

**ANTIMONY:** European free market, min. 99.99 per cent, \$ per tonne, in warehouse, 1,725-1,750 (same).

**BISMUTH:** European free market, min. 99.99 per cent, \$ per lb, in warehouse, 2,400-2,500 (same).

**CADMIUM:** European free market, min. 99.5 per cent, \$ per lb, in warehouse, 0.90-1.10 (same).

**COBALT:** European free market, 99.5 per cent, \$ per lb,

in warehouse, 27.50-28.50 (same).

**MERCURY:** European free market, min. 99.99 per cent, \$ per 75 lb flask, in warehouse, 130-150 (115-140).

**MOLYBDENUM:** European free market, drummed molybdenic oxide, \$ per lb Mo, in warehouse, 2.20-2.30 (2.12-2.18).

**SELENIUM:** European free market, min. 99.5 per cent, \$ per lb, in warehouse, 4.80-5.50.

**TUNGSTEN ORE:** European free market, standard min. 65 per cent, \$ per tonne unit (10

kg WO<sub>3</sub>, cif, 56-66 (same).

**URANIUM:** European free market, min. 99 per cent, \$ a lb U<sub>3</sub>O<sub>8</sub>, cif, 2.05-2.15 (same).

**URANIUM:** Nuxeo exchange value, \$ per lb, U<sub>3</sub>O<sub>8</sub>, 7.75 (same).

**LEAD:** European free market, min. 99.99 per cent, \$ per tonne, in warehouse, 1,725-1,750 (same).

**COBALT:** European free market, 99.5 per cent, \$ per lb, in warehouse, 0.90-1.10 (same).

**COBALT:** European free market, 99.5 per cent, \$ per lb,

## WORLD COMMODITIES PRICES

## MARKET REPORT

Sentiment on the LME was dampened by the news that IG Metall, the German metals and engineering union, will next Monday decide whether to call a strike ballot. TIN initially maintained its recent advance, with three-month metal rising to a new 18-month high of \$6,100 a tonne before hitting profit-taking. COPPER fell back after three-month metal hit resistance above \$2,240, and finished at \$2,235 a tonne, still up \$3. ZINC drifted back, but remained underpinned by technical tightness - three-month metal held above support around \$1,255 a tonne. The prospect of more origin

selling is weighing on both the COFFEE and COCOA markets. London dealers said. London coffee prices were helped by a firmer start in New York, but dealers said the near July contract is still vulnerable to a fall back to \$670 a tonne. Talk that Costa Rica is reducing its exports helped prices, some traders said. But the overall picture remains bleak. London cocoa prices had regained most of the day's earlier losses by the close as recent origin selling appeared to have petered out, but dealers said the market was braced for fresh supplies.

Compiled from Reuters

## LONDON MARKETS

SPOT MARKETS

Crude oil (per barrel FOB)

Dubai \$17.76-17.84 +1.25

Brent Blend (Lond) \$19.80-19.90 +1.10

WTI (1st oil) \$20.90-21.00 +1.00

Oil products

Heating oil (per gallon FOB)

Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

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Crude oil (per barrel FOB)

Crude oil (per barrel FOB)

## COFFEE - LONDON FOX

Close Previous High/Low

May 540 540 542 537

Jul 560 560 562 557

Sep 580 580 582 572

Dec 610 610 612 605

Mar 640 640 642 635

May 670 670 672 665

Jul 690 690 692 687

Sep 710 710 712 707

Dec 730 730 732 727

Mar 750 750 752 747

Turnover: 7,111 (4,447) lots of 10 tonnes

ICE index price for May 11 717.00 (715.20) 15 day average for May 12 735.71 (739.94)

## COCOA - LONDON FOX

Close Previous High/Low

May 620 620 622 615

Jul 640 640 642 635

Sep 660 660 662 655

Dec 680 680 682 675

Mar 700 700 702 695

May 720 720 722 715

Jul 740 740 742 735

Sep 760 760 762 755

Dec 780 780 782 775

Mar 800 800 802 795

Turnover: 2,257 (1,620) lots of 5 tonnes

ICE index price for May 11 717.00 (715.20) 15 day average for May 12 735.71 (739.94)

## SUGAR - LONDON FOX

Close Previous High/Low

May 215.00 215.00 215.00 215.00

Jul 215.00 215.00 215.00 215.00

Sep 215.00 215.00 215.00 215.00

Dec 215.00 215.00 215.00 215.00

Mar 215.00 215.00 215.00 215.00

May 215.00 215.00 215.00 215.00

Jul 215.00 215.00 215.00 215.00

Sep 215.00 215.00 215.00 215.00

Dec 215.00 215.00 215.00 215.00

Mar 215.00 215.00 215.00 215.00

## EQUITY FUTURES AND OPTIONS TRADING

**STOCK INDEX** futures traded in a narrow range for most of the session, with turnover down on recent levels, writes Joel Kibazo.

A 2,760 opening level for the June contract on the FT-SE proved to be the session's high point, for selling shortly after the opening caused a retreat, pushing June down to 2,741 by 11am. A further dip to 2,738, the day's low, was recorded shortly after. For the next few hours June traded in a narrow range between 2,741 and 2,750. Traders were concerned by the stock overhang in the underlying equity market, following recent deals in ICI and Pilkington shares.

A brief rally was seen towards the end, but June eventually closed at 2,741, down 23 from the previous finish and around 12 points above its estimated fair value premium to cash of about 8.

Turnover, at 5,986, was powered by the FT-SE 100. The traded options market was dull with turnover of only 26,765 lots. The FT-SE options accounted for a sizeable part of that total, having 11,310 contracts traded by the close, with the June 2,610 series particularly active.

Business in stock option was very poor. Boots was the most active stock, with 1,111 lots dealt. The July 460 put was the busiest series.

The utilities sector was among the market's busiest areas, with Kleinwort Benson Securities said to have played a big role in the day's activity. This mainly involved unravelling of the Electricity Package and reinvestment in specific electricity stocks.

said: "The scale of the pick-up in civil spares is still disappointing."

News of a \$50m order and, at the company's annual meeting, improved demand lifted Simon Engineering 8 to 291p.

A sizeable amount of stock continued to overhang Pilkington following Monday's bought order from BZW and BTR. Pilkington ended 6 lower at 154p, while BTR fell 8 to 488p.

The hard-hit US hotel industry weighed heavily on Bass, also affected by a 1.5m line of stock reported as being offered by Paumotu Gordon. The shares shed 16 to 637p.

United Biscuits slipped 9 to 419p after warning that first-half profits would show an "overall decline". BZW promptly cut its 1992 profits forecast by 25m to £216m.

USM-quoted T.J. Hughes, the discount retailer, made an impressive market debut. The shares closed at 9p, compared with the 76p issue price.

**MARKET REPORTERS:**  
Christopher Price,  
test.kl@bt.com

■ Other market statistics.  
Page 31.

**BRITISH FUNDS**

	Males	Price £	+ or -	1992
	(Lives up to	Five Years)		high
"Shorts" _____		99 1/2		99 1/2
3pc 1992 _____		100 1/2		101 1/2
Exch 12 1/2 pc 1992 _____		101 1/2		102 1/2
13 1/2 pc 1992 _____		101 1/2		102 1/2

#Opening Index 2742.84; 9 am 2749.7; 10 am 2751.4; 11 am 2750.8; Noon 2752.5; 1 pm 2752.2; 2 pm 2754.4; 3 pm 2755.0; 4 pm 2753.2; 4.10 pm 2751.7; (a) 6.30pm (b) 10.25pm ↑ Flat yield. Highs and lows record, base date, volume and consequent changes are published in Saturday Edition. A list of investments is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARELIST 2nd Floor, 176-180 New Street, London SW1A 2JL. Tel: 021-955 4322.

Index - Linked	Notes	Price ↑	+ or -	1992	Yield	
				high low	Int	
					(1)	
Treas. Zpc 94	(1102.9)	125 1/4	-	125 1/4	120 1/4	2.47
Zpc 96	(87.9)	187 1/2	-	187 1/2	178 1/4	3.26
Zpc 97	(67.9)	169 1/4	-	167 1/4	143	4.07
Zpc 98	(78.8)	162 1/2	-	148 1/2	138 1/4	4.24
Zpc 99	(106.9)	142 1/2	-	142 1/2	130 1/4	4.24
Zpc 99	(78.8)	130 1/4	-	131 1/4	126 1/2	4.25
Zpc 11	(74.6)	134 1/4	-	135 1/2	129 1/4	4.25
Zpc 13	(99.2)	110 1/2	-	111 1/4	100 3/4	4.24
Zpc 16	(81.6)	97 1/4	-	118 1/2	112 1/4	4.23
Zpc 16	(83.8)	95 1/4	-	118 1/2	112 1/4	4.23
Zpc 2444	(97.7)	93 1/2	-	94 1/2	88 1/4	4.18

Prospective real redemption rate on projected inflation at 10% and (2) 5% b) Figures in parentheses show RPI base

[illegible]

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## LONDON SHARE SERVICE

## AMERICANS

Company	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596	595	594	593	592	591	590	589
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## INVESTMENT TRUSTS - Cont.

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## **MONEY MARKET FUNDS**

## FINANCIAL FUTURES AND OPTIONS

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**£ IN NEW YORK**

Forward premiums and discounts apply in the US dollar

## STERLING INDEX

		May 12	Previous
8.30	am	92.9	93.0
9.00	am	92.9	93.0
10.00	am	92.9	92.9
11.00	am	92.9	92.9
Noon		92.9	92.9
1.00	pm	92.9	92.9
2.00	pm	92.9	92.8
3.00	pm	92.9	92.8
4.00	pm	93.0	92.9

## CURRENCY MOVEMENTS

May 12	Bank of England Index	Morgan Guaranty Changes %
Switzerland	93.0	-18.9
U.S. Dollar	64.1	-13.5
Canadian Dollar	99.1	-2.8
Belgian Schilling	110.1	+12.4
Belgian Franc	112.2	-2.1
Mark	109.2	+2.9
Dutch	118.4	+24.8
Swiss Franc	103.6	+11.0
London	114.2	+16.0
Quoted Guilder	104.7	-11.6
French Franc	98.5	-20.1
Portuguese Escudo	126.2	+27.6
Spanish Peseta	108.3	-17.9

## CURRENCY RATES

May 12	Bank rate %	Special * Drawing Rights	European * Currency Unit
.....		0.788315	0.699141
Australian, .....	2.50	1.75699	1.513534
Belgium, .....	6.97	1.66686	1.51808
Dutch, .....	7.50	1.59373	1.46487
French Franc .....	8.50	0.9976	0.23223
Irish, .....	8.00	0.75649	0.70456
Italian Lira .....	8.00	2.18400	1.92400
Target Guilders .....	8.00	2.54490	2.31457
Spanish Franc .....	10%	0.60635	0.50045
Swiss Lira .....	12	1.07402	1.0476
Yen, .....	3.75	1.2625	0.65494
.....		0.85427	0.81082
.....		141.463	128.343
.....	10.00	0.14847	0.79947
.....	7.00	2.10205	1.90501
.....		262.550	242.550
.....		N/A	0.764939

\* Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland  
 \* European Commission Calculations.

## OTHER CURRENCIES

May 12	L	S
Argentina	1.7864	1.7896
Australia	1.9908	1.9910
Belgium	1.9908	1.9910
Brazil	2.5246	2.5248
Canada	1.9908	1.9910
France	1.9908	1.9910
Germany	1.9908	1.9910
Italy	1.9908	1.9910
Japan	1.9908	1.9910
South Korea	1.9908	1.9910
Spain	1.9908	1.9910
Sweden	1.9908	1.9910
Switzerland	1.9908	1.9910
Taiwan	1.9908	1.9910
Thailand	1.9908	1.9910
United Kingdom	1.9908	1.9910
United States	1.9908	1.9910
West Germany	1.9908	1.9910
Yugoslavia	1.9908	1.9910

it might happen again," said one trader yesterday. But other market players read little into bank bills at 8% per cent. The Bank provided late assistance of around £170m.

In the afternoon, the Bank purchased £327m of Band-1 bank bills at 9% per cent. The

Under rate of discount 4.3907 p.c. EGD Fixed R  
0.1992. 1. Agreed rates for period May 26, 19  
chemes II & III: 11.93 p.c. Reference rate for  
S&V: 10.685 p.c. Local Authority and Finance  
aged. Finance Houses Base Rate 1.1 from May 1  
gives notice 4 per cent. Certificates of Tax Depos  
under one month 7 per cent; one-three months 9  
months 11 per cent; plus bank's call rate plus one

1992: Bank Deposit Rates for sums at seven  
Series 6; Deposit £100,000 and over held  
at least three months 5 per cent; six-month  
rate £100,000 7 per cent from Sept 5, 1992.

8 Half trembler inside is what  
ultras are (10)  
9 Unsettled tax bill restrains lit-  
tle old lady (7)

E	L	D	E	S	T
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T	O	L	E	R	A
A	D	V	E	R	T

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CANADA																	
Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng
TORONTO																	
4:00 pm prices May 12																	
Quotations in cents unless marked \$																	
2000 ABN AM	815	145	145	145	0	4000 LACER	36	6	5 1/2			42000 RBC	87 1/2	107 1/2	7 1/2		
10000 Agropur	470	470	470	470	0	1200 JAC	30	9	9			300 Shawmut	511	511	11		
30000 ALC	25 1/2	25 1/2	25 1/2	25 1/2	0	2000 LACER	117 1/2	17 1/2	17 1/2	0		12000 Scotiabank	146 1/2	146 1/2	13 1/2		
15000 Alinta En	11 1/2	11 1/2	11 1/2	11 1/2	0	8000 Eldorado	110	110	110	0		16000 Scotia Inc	117 1/2	117 1/2	13 1/2		
10000 AMEREN	82 1/2	13 1/2	13 1/2	13 1/2	0	5000 Enbridge	100	100	100	0		2000 Sun Life	110	110	11		
50000 ALKAM	82 1/2	24 1/2	24 1/2	24 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		2000 Sun Life	110	110	11		
300000 AM Barr	20 1/2	20 1/2	20 1/2	20 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		12000 Sun Life	110	110	11		
2000 Alco C	11	10 1/2	10 1/2	10 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		4000 Sun Life	110	110	11		
217000 B.N. Smith	54 1/2	44	44	44	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		4000 Sun Life	110	110	11		
40000 B.N. Smith	82 1/2	20 1/2	20 1/2	20 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		4000 Sun Life	110	110	11		
30000 B.N. Smith	82 1/2	20 1/2	20 1/2	20 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		4000 Sun Life	110	110	11		
50000 B.N. Smith	82 1/2	20 1/2	20 1/2	20 1/2	0	10000 Imperial	112 1/2	11 1/2	11 1/2	0		4000 Sun Life	110	110	11		
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10000 B.N. Smith	82 1/2	20 1/2	20 1/2	20 1													

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Japan Metal .....	8.3m	766	-2	Morinaga Milk	4.1m	836	+8
Osamotoki Inds ..	5.6m	1,422	+30	Nippon Kaating ...	3.7m	455	+1
Chiyoda Corp .....	5.2m	1,719	+80	Tachibana Corp	3.7m	680	+2
Nippon Zecori ...	5.0m	660	-4	Sanyo Elec Co ...	3.5m	461	+12
Melp Milk Prod ...	4.1m	915	+29	Shimizu Line ...	3.8m	337	+8

## NET SURVEYS

## NET SURVEYS

**A A B C D E F G H I J K L M N O P Q R S T U V W X Y Z**

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**4:00 pm prices May 1.**



FILTER CIGARETTES



**Marlboro**

20 CLASS A CIGARETTES

**NASDAQ NATIONAL MARKET**[illegible]

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407</
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*Data source: BMRC Businessman Survey 1990*

*Data source: BMRC Businessman Survey 1990*

## ET SURVEYS

FT SERVETS

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## WORLD STOCK MARKETS

## AMERICA

## Inflation data fail to spur Dow to 3,400

## Wall Street

GOOD inflation news and another fall in bond yields failed to boost US stock prices yesterday, as investors passed up the opportunity to push the Dow Jones Industrial Average above 3,400, writes Patrick Harcourt in New York.

At the close the Dow was off 12.46 at 3,356.12. At one point the index was more than 20 points down, but a late rally halved the mid-afternoon losses. The more broadly based Standard & Poor's 500 receded 2.21 to 416.39, while the Nasdaq composite index slipped 3.17 to 583.96. Turnover on the New York SE was 194m shares.

The day's inflation news - a 0.3 per cent rise in April producer prices - was well received. The increase in prices was slightly smaller than expected and some analysts said fresh evidence that inflation was not a threat to the economy left the door open for the Federal Reserve to cut interest rates further.

That the inflation numbers, and the subsequent fall in bond yields, failed to provide a boost to prices was primarily due to technical factors. Dealers said that a short-term ceiling on prices had been set at 3,400 on the Dow, and profit-taking emerged as soon as the index threatened to breach that level.

Citicorp dipped 3% to \$18.4 in heavy trading after the banking group offered to exchange newly issued common shares for all of its second and third series adjustable rate preferred shares.

General Mills put on 3% to \$62.74 on news that its three continental European snacks businesses would be merging with three similar operations owned by PepsiCo, which lost 3% to \$35.76.

News Corp rose \$1 to \$33 in the wake of a turnaround in the Australian parent group's fiscal third-quarter earnings.

The Limited fell 2% to \$21.4 after disappointing the market with first-quarter net profits of \$51.5m, barely higher than a year ago in spite of enjoying a one-off pre-tax gain of \$9m.

On the American Stock Exchange, Sharo plunged \$1, or almost a third, to \$27 after Morgan Stanley cut its earnings estimate and investment ratings for the stock in the wake of the company's poor first-quarter performance.

On the Nasdaq market, Midland jumped 1% to \$10.4 in

turnover of more than 2m shares after senior executives from the regional bank holding company were reported to have told analysts in New York that the company anticipated a further decline in its problem loans.

In the same sector, Star Banc moved forward 5% to \$37 and Fifth Third Bancorp declined 3% to \$42.34 on reports that institutional investors were putting pressure on Star Banc to consider a bid from its rival Ohio banking group.

**Canada**  
TORONTO stocks tumbled from midday highs to end flat as bullish sentiment over the slight rise in the US producer price index waned late in the day.

Weakness in New York muted growing optimism that has been seen in the Toronto market over the last few days. Traders noted, however, that Toronto may continue to outpace New York as it has over the last two sessions.

The composite index was up just 0.7 at 3,427.9 after reaching 3,444.8. Volume totalled 25.7m shares. Advances ran neck and neck with declines, finishing at 296 each.

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turnover of more than 2m shares after senior executives from the regional bank holding company were reported to have told analysts in New York that the company anticipated a further decline in its problem loans.

In the same sector, Star Banc moved forward 5% to \$37 and Fifth Third Bancorp declined 3% to \$42.34 on reports that institutional investors were putting pressure on Star Banc to consider a bid from its rival Ohio banking group.

**Canada**  
TORONTO stocks tumbled from midday highs to end flat as bullish sentiment over the slight rise in the US producer price index waned late in the day.

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## Interest rates explain Turkish decline

Antonia Sharpe analyses both ends of the latest emerging markets performance chart

Turkey and India languished at the bottom of the emerging markets performance chart in April, while Pakistan comfortably secured the top slot.

According to the data provided by the IFC, part of the World Bank, Turkish equities dropped by 9.8 per cent in local currency terms, but by a bigger 14.5 per cent in terms of the dollar because of the lira's depreciation against the US currency.

Mr Malcolm Cooper, who analyses Turkish stocks for London-based broker Carnegie International, says the fall in the equity market this year can be attributed partly to high interest rates, which have attracted domestic savings to the country's highly developed public debt market.

"There are a lot of short-term investors in Turkey, and this makes the equity market volatile," he adds.

The recent crop of good first-quarter results from the corporate sector have so far been ignored by the stock market. But Mr Cooper believes they could still spark a short-term upward correction over the

next month. He also notes that equity valuations have dropped back to levels seen in the mid to late 1980s, when international investors first entered the market.

The government's commitment to raising the success rate of its privatisation programme, while regarded as positive by analysts, is not expected to improve the stock market's fortunes greatly.

India, which had jumped 35.3 per cent in dollar terms in March following a government budget designed to open up the country's capital markets, retreated 14.4 per cent last month as a brokers' strike and trading scandals prompted panic selling.

Some foreign analysts are relieved that the speculative bubble has burst, since Indian share prices had lost touch with fundamentals, such as slowing industrial production and uncertainty about future corporate earnings. They add that the Indian stock market will have to fall a lot further to attract foreign investment. Its gain in the first four months is a hefty 74 per cent.

By contrast, Pakistan

rebounded by 13.8 per cent last month, reducing its fall since the start of the year to 12.4 per cent, compared with a drop of 22.2 per cent at the end of March.

Investor sentiment had been harmed by investigations into speculative buying on the stock market and, more broadly, by the power struggle in neighbouring Afghanistan.

Latin America was generally firmer, with the exception of Mexico which weakened 4.9 per cent on fears that there would not be enough demand for the government's placement of more shares in Telcel this month. However, Mr Tony Ewell of BZW says that response to the issue picked up just before the pricing of the issue this week.

DM2.30 higher at DM38.80 for a two-day gain of DM6.80, reflecting buying for Friday's dividend payment. Continental, the tyre maker, recovered DM4.20 of Monday's DM11 loss to close at DM26.80, after the downward revision of weekend rights issue expectations.

ZURICH broke its uptrend on general and specific grounds. Higher Swiss money market rates weighed on the banking sector, within which SBC bearers dropped SF8 to SF261.

After the close the US rating agency, Moody's, said that it had downgraded SBC's senior debt to A-1 from A-aa, and SBC said that this would have no material effect. The SMI index fell 12.9 to 1,950.8.

STOCKHOLM ran into profit-taking. The Affarsvärlden General index eased 8.1 to 1,006.4 in turnover of SKr576m after

SKr677m. Volvo fell back on disappointment that rumours of an early merger with Renault had not been confirmed. Its B free shares fell SKr7 to SKr44. Ericsson rose SKr1 to SKr135 on news of a SKr700m telephone system order in Tokyo.

AMSTERDAM weakened slightly with the CBS Tendency index losing 0.2 to 130.2. Buehmann-Tetterode rose F11.10 to F14.60; it reported lower first quarter profits, but forecast an improvement over the year. Ahold was 90 cents stronger at F1.88 on better first quarter sales while International Muller put on F1.23 or 3.5 per cent to F1.87 ahead of tomorrow's annual meeting.

MADRID lost ground on profit-taking. The general index fell 1.18 to 267.91 in turnover of Ptas4.56m.

index at mid-session, the DAX fell 1.87 lower at 1,751.16, market turnover easing from DM6.5bn to DM6.2bn.

Among carmakers, Daimler fell DM7 to DM782, dealers blaming reports that a fighter jet which its Deutsche Aerospace unit had helped develop was unlikely to be built. Volkswagen fell DM4.30 to DM392, and this fall was put down to profit-taking after its recent rally.

Dresdner Bank closed

## IFC EMERGING MARKETS PRICE INDICES

Market	No. of stocks	Dollar terms			Local currency terms		
		Apr 30 1992	% Change over month	% Change on Dec '91	Apr 30 1992	% Change over month	% Change on Dec '91
Latin America							
Argentina	(28)	1,585.39	+9.9	+23.5	87,161,053	+9.9	+23.5
Brazil	(86)	158.32	+3.2	+50.9	115,653,642	+3.2	+50.9
Chile	(35)	2,010.06	+0.6	+30.3	5,383,490	+0.6	+30.3
Colombia	(20)	849.79	+4.5	+5.4	5,529,19	+4.5	+5.4
Mexico	(86)	1,715.50	-4.9	+18.3	27,290,57	-4.9	+18.3
Venezuela	(17)	579.77	+7.4	-14.2	4,949,69	+7.4	-14.2
East Asia							
South Korea	(81)	247.03	+0.4	-13.6	232.62	+0.4	-13.6
Philippines	(30)	1,661.08	+8.4	+15.6	2,093,17	+8.4	+15.6
Taiwan, China	(70)	602.59	-5.8	-4.3	380.83	-5.8	-4.3
South Asia							
India	(82)	479.19	-14.4	+74.1	1,091.33	-14.4	+74.1
Indonesia*	(83)	82.05	-4.4	+11.3	69.60	-4.4	+11.3
Malaysia	(82)	183.77	+1.4	+14.0	170.56	+1.4	+14.0
Pakistan	(58)	276.67	+13.8	-12.4	453.55	+13.8	-12.4
Thailand	(51)	339.00	-8.7	+6.9	320.43	-8.7	+6.9
Europe/Middle East							
Greece	(27)	406.43	-0.4	-1.8	611.40	-0.4	-1.8
Jordan	(32)	102.83	+8.3	+7.0	184.15	+8.3	+7.0
Portugal†	(30)	414.40	+1.4	-3.5	370.35	+1.4	-3.5
Turkey‡	(25)	53.47	-14.5	-37.1	460.31	-14.5	-37.1

Source: International Finance Corporation. Base date: Dec 1991=100. \*Dec 1989=100. †Jan 1988=100. ‡Dec 1989=100.

## ASIA PACIFIC

## Nikkei turns lower on arbitrage-related selling

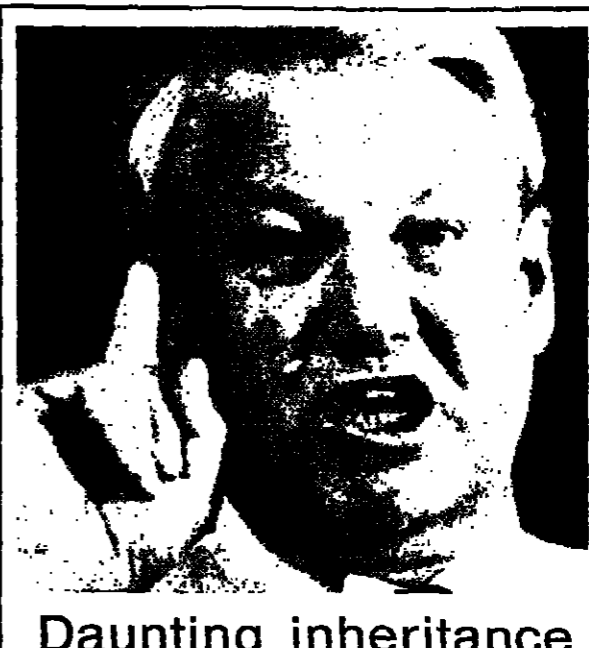
## Tokyo

WHILE THE Nikkei average turned lower on arbitrage-related selling, sentiment remained positive on the strength of the yen and advances in overseas markets, writes Emiko Terazono in Tokyo.

The 225-issue average closed 99.56 off at 18,508.53 after a day's high of 18,716.58 and low of 18,486.89. A rise in the futures market had moved equities higher in the morning.

Volume totalled 400m shares, up from 394m. Dealers led the activity, with institutional trusts and foreigners staying on the buy side. The Topix index of all first section stocks lost 2.40 to 1,355.81, but advances remained ahead of declines at the close by 577 to 401, with 1

Local currency value		% Chg.
Apr. 30	1982	1982 over month
56,145.00		+8.9
55,240.00		+24.2
57,321.00		-0.2
57,208.50		+5.8
57,241.50		-4.6
57,190.00		+7.5
57,150.00		-0.8
57,144.00		+11.3
57,074.00		+7.6
57,137.33		-14.8
57,150.00		-0.1
57,150.00		-0.8
57,150.00		+14.1
57,150.00		-8.5
57,150.00		-0.7
57,150.00		+6.7
57,150.00		-0.2
57,150.00		-9.8



## Daunting inheritance for Boris Yeltsin

■ Russia's president Yeltsin, pictured above, faces a critical period in the next few months. Meanwhile, the youngest cabinet in Russian history - most of the key ministers are in their 30s - is being entrusted with the momentous task of switching the country to a market economy after 75 years ..PAGE 6

## ON OTHER PAGES

- Economic reform: starting down a bumpy road to the market – report by Martin Wolf ..... PAGES 2 and 3
- Privatisation: optimistically, the government hopes to achieve large-scale privatisation projects by the end of 1993 ..... PAGE 4
- The regions and peoples of Russia: a fresh balance must now be struck ..... PAGE 5
- The new government: something of a miracle. .... PAGE 6
- War on corruption ..... PAGE 6
- Agriculture: food supplies are now the biggest threat to political stability. .... PAGE 7
- Oil: the state's most prized resource ..... PAGE 7
- Russian entrepreneurs: out of the shadows at last ..... PAGE 8
- Drastic cuts in research bring an uncertain future for top scientists ..... PAGE 8
- The environment: much illness is linked to industrial pollution ..... PAGE 9
- Armed forces: money for butter, not guns, is today's priority ..... PAGE 10

**Editorial production:** Michael Wiltshire.  
**Graphics:** Bob Hutchison; **pictures:** Tony Andrews.

# THE REFORMING OF RUSSIA

**Russia's political and social fabric has borne recent shocks with astonishing resilience, reports John Lloyd from Moscow**

## The pessimists have so far been confounded

**A** RUSSIA reforming is a vertiginous place. So many questions are open: so many issues are not resolved, the resolution of so many of these seems unattainable; so many movements and trends point to deepening chaos; and yet, so many signs of hope and optimism now appear from beneath the constitutional and institutional rubble of the collapsed Soviet imperium.

The best of times for chroniclers, it is the worst of times for forecasters: who, either Russian or foreigner, could weigh with a hope of certainty, the competing masses of threats and possibilities?

Say the Russian people must rise against the privations they are experiencing, and you must counterpoise a history of stoic endurance of much worse.

Say the shoots of enterprise  
are bursting out, and court

instant contradiction by a still powerful, enterprise-hating bureaucrat.

Say that the centre cannot make its writ run throughout the country now that Party and state control has collapsed, and you must at the same time admit that Washington DC had little purchase on many of the states of the Union at the same time as the US was bounding ahead of the old world a century ago.

**Pessimists and optimists** both find themselves on shifting ground, confounded by the last person they met. Such is the nature of the continuing Russian revolution: the judgments made on its outcomes in

In times no more settled but more predictable two years

more predictable, two years ago, the FT published a large survey on what was still not

the former Soviet Union. Its motif was less of reform than of disintegration: of national and economic struggles still constrained by a weight of a Party which sought to monopolise political activity everywhere except, arguably, the Baltics: of the maintenance of a Union which, for example, the Ukraine, still dourly upheld.

Much of what has happened since that time was still held then, by Russians and other Soviets and foreigners, as unthinkable dangerous. It is one of the signs of hope that few of these dangers have (yet) come to pass.

The collapse of Union and Party authority since that time has been more or less complete, though of course the effects will still course through politics here and abroad for years to come.

The putsch in August of last

year delivered a coup de grace to a political process which was pretty far advanced - clearing the way for national agendas which had been held in check by, among other things, fear of just such a reaction. The fear, however, was of one rather better organised and more ruthless than the real thing luckily turned out to be.

**R**USSIA, with half-Russian inhabited Kazakhstan, clung on to the Union longer than any other state: it signed the Union treaty which Mr Mikhail Gorbachev (now a pensioner) had begged and wheedled all to acknowledge.

But months before Mr Gorbachev read his uncharacteristically brief statement of resignation just before last Christmas, it was clear this was an empty shell: and Rus-

sia, with the two other Slav states of Ukraine and Belorussia, had become a founding member of the Commonwealth of Independent States, later extended to all other former Soviet republics save the three Baltic countries and Georgia - which, under the leadership of Mr Zviad Gamsakhurdia, refused to accede on the grounds that it was a front for Russian imperialism and now, under the leadership of Mr Eduard Shevardnadze, is not signing because the CIS has proved to be a front for nothing very much at all.

It is still a little too early to write the obituary of the commonwealth: later this week, the leaders of the commonwealth should meet in Tashkent, in Uzbekistan, for what the most enthusiastic of the CIS presidents, Mr Nursultan Nazarbayev of Kazakhstan, has said must be a make-or-break

meeting.

None of the elements which must necessarily attend a successful co-operative alliance state have been developed: there is no functioning autonomous centre; no mechanism for confronting disputes except bilateral contacts (which could function as well between states not linked in the CIS; less and less so between Russia and Russia, the paymaster of the "CIS forces" now concentrates on building up its own military.

The only function it seems to have is that which Mr Leonid Kravchuk, the subtle Ukrainian president, has outlined for it of seeking to conduct a civilised divorce.

Even that, however, is not yet really being undertaken: there has been no division of Union property, except on the rough justice principle of each state taking what is in its territory.

Continued on next page



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Marcia Levy, the solicitor in charge of the Moscow office, has been joined by Chris Ferguson as a resident solicitor. Chris has come from Norton Rose's London Energy Group.

Norton Rose's Russian practice covers inward investment into Russia, privatisation, shipping, aviation, energy and natural resources, banking, project financing and dispute resolution.

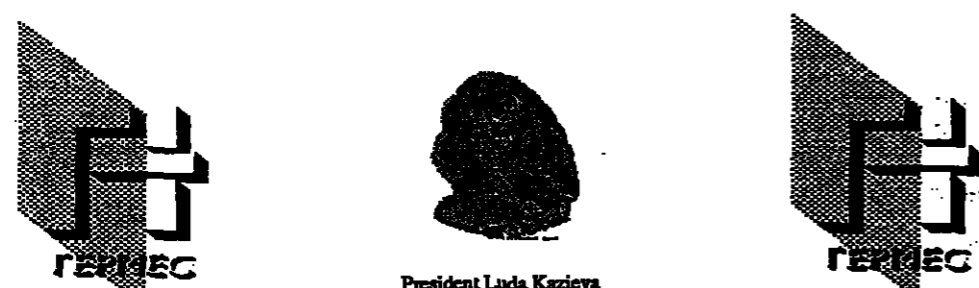
The expansion of the Moscow office is opening up new and exciting career opportunities for enthusiastic general corporate lawyers, with at least two years' admitted experience, who will deal with a range of corporate, commercial and banking transactions generated through our contacts in Eastern Europe.

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## THE REFORMING OF RUSSIA 2

After the fumbblings of the Gorbachev era, Boris Yeltsin's government of young technocrats at last takes reform in hand, says Martin Wolf

# Starting down a bumpy road to the market

YEGOR GAIÐAR, Russia's dynamic young deputy prime minister in charge of economic reform, deserves sympathy.

Working with his team of equally young ministers, under the leadership of President Boris Yeltsin, he is engaged in perhaps the most difficult and ambitious programme of economic and social reform ever undertaken. Yet not only are the people at large sullen and the apparatchiks of the former regime volubly opposed; but even the small band of westernised intellectuals criticises the government at every turn. They complain of the failure to start structural reforms before price liberalisation; they complain of the failure to privatise housing; they complain of the failure to de-monopolise industry; they complain of the failure to sustain monetary coordination throughout the former Soviet Union; and they complain of the harshness of the monetary squeeze. Soon they will convince the people that their difficulties are owed to the present government, not to its predecessors.

### Indicators of acute economic crisis

They will not convince the government itself. As it told the International Monetary Fund in its Memorandum of Economic Policies of February 1992, "by the beginning of this decade, the economy was in a state of acute crisis, marked by declining output, accelerating inflation, obsolescent capital stock, pervasive distortions in the relative price structure, serious structural imbalances, and severe ecological problems."

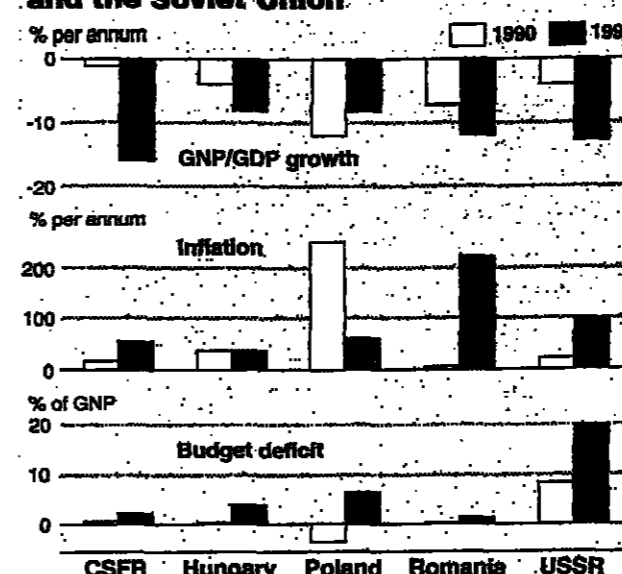
This is, if anything, an understatement. Russia is the largest remnant of a defeated and bankrupt empire. Of that there is one high on perfect indicator: so despised has the Soviet ruble become that at present market exchange rates, Russia's annualised gross national product in the first quarter of 1992 was smaller than Belgium's.

Consider the government's short term inheritance:

- Falls in the former Soviet Union's measured gross national product of 4 per cent in 1990 and 13 per cent last year.
- External debt of over \$80bn and virtually no foreign exchange reserves.
- Rapid declines during 1990 and 1991 in production and export of oil, Russia's most valuable single commodity.
- Real industrial wages up by over 20 per cent between 1987 and 1990, and by still more in 1991, if only on paper, despite falling productivity.
- Years of fiscal profligacy, culminating last year in a budget deficit for the Union of 20 per cent of GNP.
- A monetary overhang at the end of 1991 of large, but unknown dimensions.
- A debauched currency shared by 15 largely uncoordinated central banks.
- And a breakdown of economic relations among enterprises and, still more, among republics.

No government would wish

### Recession and reform in eastern Europe and the Soviet Union



Source: Stanley Fischer, 'Stabilisation and Economic Reform in Russia', Brookings Papers on Economic Activity 1/1992, forthcoming.

to start from here. But reform could hardly have started from anywhere else. Only the bumbled of the Gorbachev era could have made radical reform inevitable. How, other than in the name of *perestroika*, could the command system created by Stalin have been so thoroughly dismantled?

Yet that very bungling makes successful reform exasperatingly difficult. For, as was the case in Poland in 1989, though to a still greater extent, the Russian government starts with a severe stabilisation crisis, itself a symptom of the breakdown of the Soviet state. As Mr Gaidar remarks with justified bitterness, "we have had three years of strongly negative growth from 1988 to 1991. We paid for the absence of reforms: now we must pay for reforms. We cannot stand three more years of that: one year only (1992) is possible."

### Mistakes should be judged with tolerance

So bleak an inheritance means that the efforts of the government should be regarded with sympathy and its mistakes judged with tolerance. But it also offers a ray of hope: can a country so rich in resources, yet so extravagant in their waste, not do better?

On 28 October 1991, President Boris Yeltsin, freed by the failed August coup from both the communist party and the Soviet government, announced a programme of radical reform

focusing on economic stabilisation, financial reform and privatisation.

Then, on 19 December the government approved the liberalisation of most prices, except only for a few staple foodstuffs (including vodka), energy (particularly oil) and housing. The decision to liberalise prices was, and remains, controversial. It violates, for example, the sequence recommended in the 500 day programme for radical reform put forward at the end of 1990 by a group headed by President Gorbachev's close adviser at that time, Stanislav Shatalin. That programme recommended starting with structural change, including radical privatisation, before price liberalisation.

The government started with price liberalisation for four main reasons:

- Reduction in the huge budget deficit would be impossible if subsidies were not dramatically reduced.
- Shortages, queues, and grey and black marketeering were social cancers.
- Both greater competition and reductions in waste require sensible prices.
- The easiest thing for a government that wishes to show it means business is to stop doing things that are harmful, like controlling prices.

Yet the best indication that formal price liberalisation is, indeed, not enough is the chaotic expansion of street trading that followed the government's controversial decree on freedom of trade. This was a crisis measure, which allowed people

to take goods from the distribution chain - be it from front or the back door - and resell them.

As a result, the pavement of Moscow now hosts one of the world's most densely distributed street bazaars.

### Surge in prices has eliminated queues

As happened elsewhere, notably in Poland, prices rose by far more than expected: three and a half times in the first month even on official figures.

The surge in prices has lowered the unrealistic official estimates of real incomes by 40 per cent. But it has also eliminated the shortages and queues that reflected not only the gap between wages and the value of output, but also the "monetary overhang", or unspendable store of roubles.

At the end of last year the stock of broad money (M2 on the Russian definition) was about 80 per cent of GDP. By the end of March 1992 that ratio had fallen to below a quarter.

Inevitably, money became very short, particularly cash, the demand for which (at the present face value of the notes) surpassed the capacity of the four printing plants (all located in Russia); many workers have been told that there is no cash for their wages.

Substantial progress has been achieved on the budget deficit. Mr Gaidar insists that in the first three months of the year the budget was balanced: the Ministry of Finance says there was a deficit of about 1½ per cent of gross domestic product on an expenditure basis and 5 per cent on the basis of commitments, although international financial institutions suspect it may be over 10 per cent.

Nevertheless, the Ministry of Finance has achieved something that has eluded most post-Communist governments: the establishment of a reliable source of revenue independent of profits in the state enterprise sector.

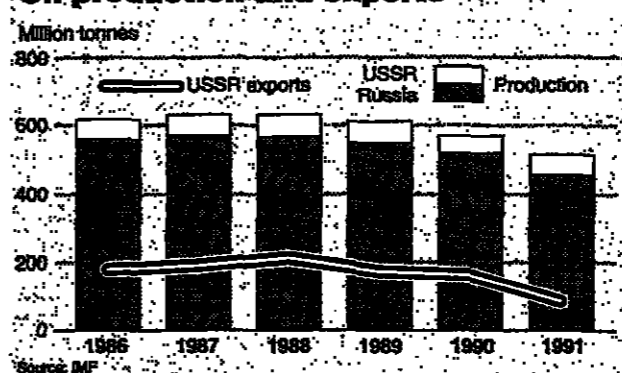
Revenue from value-added tax has risen from Rb10.5bn (roughly \$80m at the market exchange rate) in January, to Rb15.4bn in March. To this will soon be added taxation of both domestic consumption and exports of oil and gas as their prices are raised towards world levels.

After initial difficulties in January, following the introduction of a new system of export taxation, export performance has also recovered.

Postponement of the export taxes, introduction of a market exchange rate for hard currency and curtailment of administrative regulations reversed the decline in exports at the beginning of the year. Meanwhile, rescheduling of payments of principal on medium- and long-term loans due in 1992 has saved Russia \$11bn of the \$21bn that comes due this year.

Continued on facing page

### Oil production and exports



## A more open, far less threatening place

Continued from previous page:

ritory - thus producing the absurdity of little Belorussia being a "nuclear power," and of poor Kazakhstan having the capacity, at Balkanur, to launch satellites.

This leaves Russia on its own: a nation shorn of its external Soviet (and Tsarist) empire - though containing, in the numerous ethnic groups within its borders, the traces of much earlier imperial expansion.

As Mr Boris Yeltsin, the Russian president, saw just about two years ago, Russia was the prize which was most desirable to win as the Union faltered and fell.

His political instincts gave him a better feeling for the movement of forces than was apparently available to Mr Gorbachev, and has left him in command as the former struggles to retain his visibility on the sidelines.

Yet Mr Yeltsin's inheritance is a daunting one, even for a spry as resilient as his has proved to be. Like the symbols of Soviet power which remain everywhere visible throughout Russia, the economy, the society and the institutions remain substantially unreformed and retain a large latent power, if not to recover a former author-

ity, then certainly to block change and to force compromise.

At the Congress of Peoples' Deputies in April, it was apparent that the majority of that particular unreformed body - whose deputies still owed their election to the system under which seats were allocated to the Party and its front organisations - was hostile to the government's economic reforms, in revolt against the special presidential powers to select the government and push through decrees and reluctant to even discuss new drafts of a constitution.

### Declaration of support

Under the pressure of the government's threatened resignation, the parliament was led to agree a declaration of support for the economic reforms: but Mr Yeltsin was put under notice to propose a new government, including a replacement for himself as Prime Minister, within three months while the draft constitutions were not even brought to the floor of the Congress.

In this case, the unreformed nature of the Congress suited Mr Yeltsin and the government: for had it been democratically elected, with a clear mandate from the people, its

criticisms and decisions would have carried more weight.

As it is, Mr Yeltsin is able to again go to the country with his own version of a constitution crafted to give him, as President, full powers to appoint governments and to issue decrees.

His supporters in the democratic parties are now setting about collecting the necessary million signatures to hold such a referendum: it will be divisive, but he must now assume that his popularity, and the present lack of an alternative figure to challenge his pre-eminence as a politician, will see it through.

He can also profit by the disarray among the emerging political parties and groups. The communists, now under various banners, showed, during the Congress, that they had little force on their own: only when allied to the nationalists could they be decisive.

However, that alliance is a distrustful and tense one, with each group seeking to maximise its position and often embroiled in ideological disputes of little interest to the public.

The various democrats are similarly split and distrustful, but with various degrees of reluctance are prepared to back the government programme, and the president, for

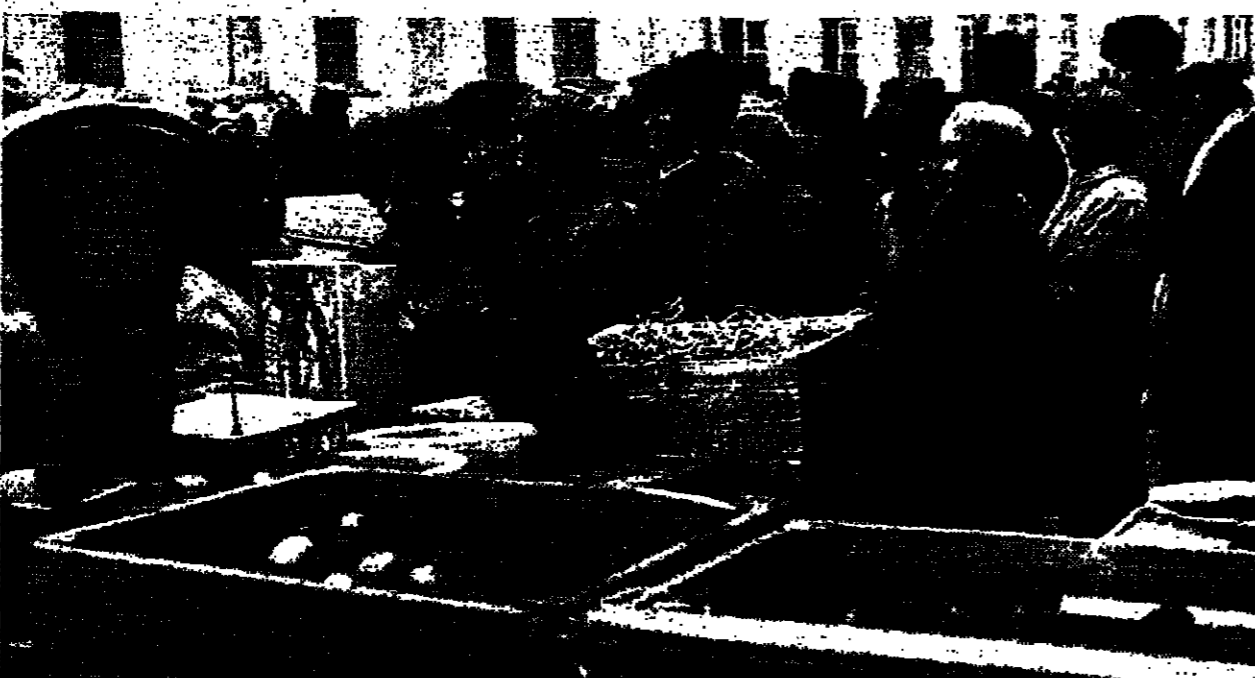
lack of an alternative.

The next few months are a critical period: the government, having won support from the Group of Seven countries and the IMF to the tune of \$24bn in backing for their economic programme, must now implement it: the government must keep credit tight, attempt to move towards rouble convertibility, put more effort behind privatisation of small businesses and the transformation of the larger state companies into joint stock enterprises.

If they succeed, they will force companies to adapt: that adaptation will, in turn, cause bankruptcies and unemployment - the malign result of a much-needed movement.

More shocks are yet to come. The political and social fabric has so far borne such shocks with astonishing resilience, confounding the pessimists at home and abroad. Russia, today, is a much more open, much less threatening place, with relatively free media and with a broad space given to the profession of faith and opinion.

The potential for reaction and chaos is clear: yet the possibilities for its full membership of and integration in world society has never been greater.



Moscow fruit and vegetable market: the queues have gone, but the prices are now too high

## A predictably high price

Continued from previous page

The action so far has had a high, if predictable, price: industrial output is estimated by the government to have fallen by 13 per cent in the first quarter of 1992 below the level of a year before.

The behaviour of Russian large enterprises has been similar to that in other post-communist countries. The failure of such large enterprises to respond in ways that would make sense in a market economy is the central problem of post-communist reform. The problem for government is that it can do almost nothing with these enterprises, but can also do little without them.

### Soaring debts

The combination of price liberalisation with credit control has been greeted by higher prices, lower output, non-payment of debts due to other enterprises (with such debts soaring to some 20 per cent of GDP within a little over three months), and screams of anguish.

The response has been made worse by the collapse in military expenditures. These were once somewhere between 15 and 25 per cent of Soviet GDP, but are now down to a mere 8 per cent of Russian GDP in the first quarter of 1992.

The canter of the larger state enterprises is predictable. Since the "reform" embodied in the Law on State Enterprises of 1987, enterprises answer almost entirely to their managers and, still more, to their workers. Russia is no longer a country of "state capitalism". Yugoslav self-management is a more relevant parallel.

The principal concern of such enterprises is with meeting their wage bills and preserving employment. In the short term, their behaviour can only be changed by starving them of money. But the prob-

lem with starving enterprises of money is that they are little more frightened of the government than it is of them. They, too, have a sanction: the social consequences of their own collapse.

Mr Andrei Nekhaev, the economics minister, says he has noticed an encouraging shift in the petitions of the steady stream of enterprise managers he receives in his office in the former Gosplan state planning commission building in the centre of Moscow: they no longer assume he can help them with supplies, but want him to do out cheap money. He claims he tells them to cut their prices, wages and staff, instead.

Mr Nekhaev also expects Mr Boris Yeltsin, the Russian president, to sign a decree on bankruptcy. This will allow the government to force 10 or 15 companies into liquidation, he says: a small beginning, but an important demonstration to others of the consequences of failure. But can the government force, or even permit, more than a handful of enterprises to close, when the result will be huge increases in open unemployment?

Inextricably linked to the behaviour of enterprises is that of wages. "Given the rapid growth of wages in the material sphere in the latter part of 1991 and early 1992," says the government in its memorandum to the IMF, "which risks fuelling inflation and may cause unnecessary unemployment, the government is prepared if necessary to introduce measures to prevent excessive growth in wages."

The chances are that it will have to. Here too, however, the question is whether the government will be prepared to allow the bankruptcies that alone would make the envisaged wage tax effective.

Macroeconomic control is, in fact, almost impossible without changes in the structure and



The ravages of inflation: once these notes were worth \$50 each... now they are worth around 50 cents

ownership of enterprises. It is largely because of the scale of inter-enterprise indebtedness that the government has felt it necessary to authorise Rb200bn in extra investment credits from the Central Bank of Russia over the next six months.

Mr Nekhaev has also put aside Rb20bn to assist defence conversion and another Rb40bn for social protection of displaced workers in the military sector (neither being very much, given the scale of the problems).

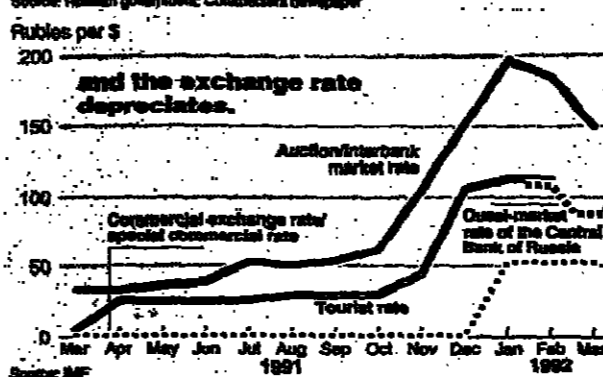
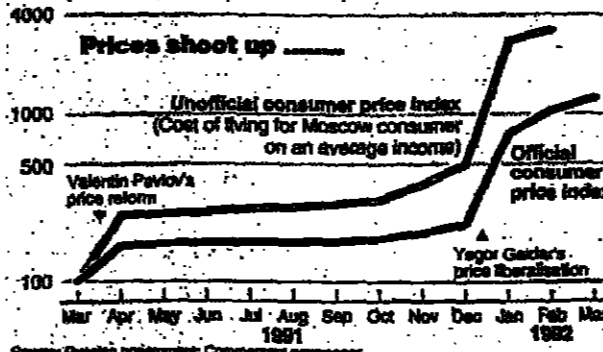
Pressures from the economy (and the budget) are more likely to undermine monetary control than the widely discussed policy differences between the government and the central bank.

Mr Goryunov, chairman of the Central Bank of Russia, for example, insists he has no fundamental disagreement with government. Mr Nekhaev says that "we don't fully believe in the top managers of the Central Bank, but if they resign now, it won't necessarily be better than if they stay."

Mr Gaidar himself now argues that the Russian econ-

### Onset of open inflation

Index (March 1991 = 100)



was estimated at almost 20 per cent in March alone (an annual rate of over 700 per cent). With huge energy price rises in prospect, inflation is likely to continue at a torrid rate.

### Programme ahead

The government's programme for the rest of the year and beyond covers:

- Privatisation by auction of small-scale shops and enterprises (now started in just a few cities) in 1992.
- Private ownership of land; privatisation of food production and distribution.
- De-monopolisation of industry; commercialisation of larger enterprises and their mass privatisation in 1993.
- Creation of an adequate social safety net.
- Further price liberalisation, including the raising of energy prices to world levels.
- Liberalisation of international trade.
- And resident convertibility of the rouble on current account.

None of this will be easy. Some of it will be hugely difficult. Small scale privatisation is feasible and desirable. Privatisation of large scale enterprise will turn out to be far more difficult than the government imagines.

If experience elsewhere is any guide, ministers will be driven to industrial policy, but will fail to make a success of it. Meanwhile, any safety net could be swiftly broken by a large increase in unemployment.

Energy prices must be raised if the economy is to be more efficient (not to mention less polluting). The government has announced its intention to raise the oil from Rb350 price per tonne to between Rb1,800 and Rb2,200 and achieve parity with world energy prices by the end of 1993.

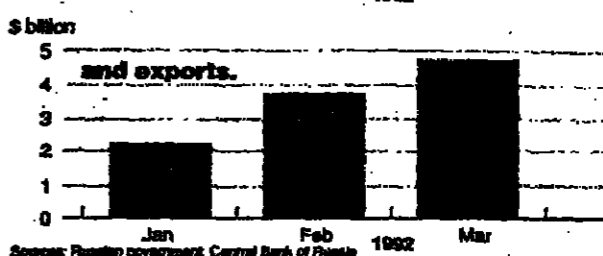
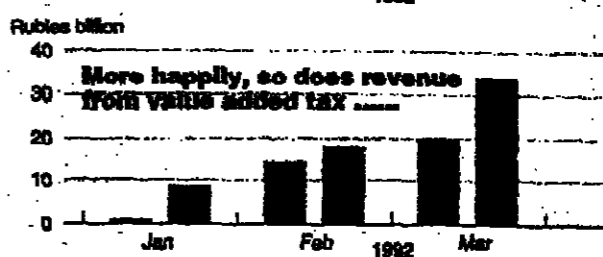
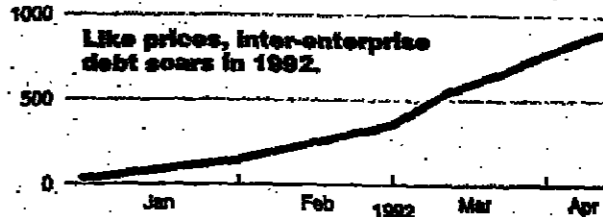
Domestic taxation of oil and gas is expected to amount to 4.7 per cent of GDP and taxation of exports, largely of oil and gas, to 9.1 per cent of GDP in the last nine months of 1992, according to the government's February memorandum to the IMF.

These taxes - up from very little in the first quarter of 1992 - will be paid by domestic consumers and, above all, by those in other members of the Commonwealth of Independent States. Offsetting subsidies or credits will be necessary, at least for a transitional period, if output is not to collapse.

The planned convertible and fixed exchange rate will increase competition in the economy as well as provide a degree of monetary stability.

### heralds the start of reform

Rubles billion



Source: Russian government Central Bank of Russia

Equally, the government is right to believe the present market exchange rate is highly undervalued. To give only one indication, at recent exchange rates of Rb123-130 to the dollar, Russia's exports are almost as large as its GDP.

Should the nominal rate not appreciate before it is fixed, the result will be real appreciation through domestic inflation. This is what has happened since December 1991. The real value of the market exchange rate for the cash rouble has appreciated more than six times, but only because of domestic inflation.

Exchange convertibility demands monetary control and monetary control demands curbs on emission in other republics of the CIS. But this Gordian knot the government has decided to cut, by the simple expedient of making the rouble Russian.

### Key questions

Nothing is easier than raising questions about the likely performance - or, indeed, survival - of the Russian government:

- Can a legal culture supportive of private enterprise be established in Russia's barren soil?
- How high might unemployment go and how well will Rus-

sians cope with it?

- Can Russia finance a politically and socially adequate safety net?

- Will it be possible to create the minimum needed cooperation over trade and payments among the main members of the CIS?

- Can small enterprises and farming be privatised quickly?

- Can large state enterprises be restructured and privatised and, if so, how much time will it take?

- How long will it be before economic growth resumes?

- How far can one rely on the patience of the Russian people?

- With IMF membership agreed, how soon will the West's \$20bn be available and how much difference might it make?

The questions come easily. So do criticisms. It is not true, for example, that there are no alternatives to what the government is trying to do. There are. But few offer anything other than disaster. This is at the least a dynamic and convinced reforming government, if one starting on a long and difficult road.

It will need much help from abroad and much patience at home. It will need luck as well. But it offers a chance, inevitably no more, of what the world wants: economic recovery and political stability in Russia.

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BALANCE SHEET:		1991	1990
Liabilities: Dec 31	SUR m. (incl. USD m.)		
Share capital	451.6 (84.2)	153.1 (-)	
Current & deposit acc.	1,124.9 (43.3)	887.3 (1.6)	
Short term borrowings			
from domestic banks	2,345.2 (8.0)	242.2 (0.5)	
Other liabilities	714.5 (16.7)	114.0 (-)	
Profit	102.0 (2.9)	21.3 (-)	
Total liabilities	4,738.2 (155.1)	1,417.9 (2.1)	
Assets: Dec 31	SUR m. (incl. USD m.)		
Cash & placements	619.3 (92.8)	147.3 (0.4)	
with banks including reserves at the			
USSR State Bank	29.3 (-)	83.9 (-)	
other banks	588.3 (92.4)	63.3 (-)	
Loans to customers	3,261.2 (5.0)	1,108.9 (1.7)	
Premises & equipment	29.0 (-)	(-)	
Other assets	808.7 (57.5)	160.7 (-)	
Including securities	(-) (2.6)	(-)	
Total assets	4,738.2 (155.1)	1,417.9 (2.1)	

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## THE REFORMING OF RUSSIA 4

Optimistically, the government hopes to achieve large-scale privatisation by the end of 1993, says Martin Wolf

# The difference between economic reform and revolution

PRIVATISING the Russian economy is the most revolutionary – or rather counter-revolutionary – policy of the Russian government. For mass privatisation is the difference between economic reform and revolution.

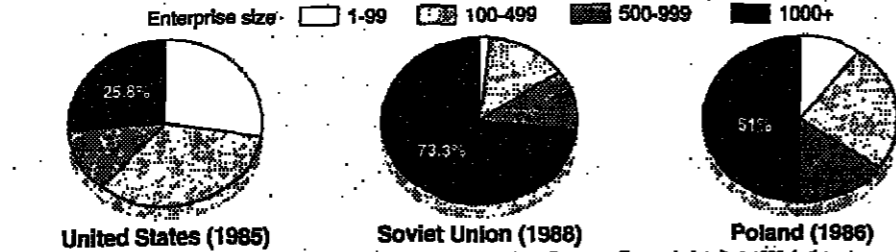
Price liberalisation and macroeconomic stabilisation could, in theory have been attempted by reform communists. But successful privatisation would spell *finis* to Bolshevism. Its aim is not just to create a new, more competitive economy. It is to create new classes, new attitudes and new relations between government and the governed.

Counter-revolutions are *prima facie* no easier to make than revolutions, especially when, as was true of Lenin's proletariat in 1917, the class that will be the obvious beneficiary – the bourgeoisie, both big and small – now hardly exists.

The government does not even possess secure control over the levers of national power. Its sole advantage is, in

## Size of industrial enterprises compared

Shares in total industrial employment



United States (1985)

Soviet Union (1988)

Poland (1986)

Source: Stanley Fischer, "Stabilisation and Economic Reform in Russia", Brookings Papers on Economic Activity 1:1992, forthcoming

the words of Anatoly Chubais, minister for privatisation (or, more precisely, "chairman of the committee for the management of state property of the Russian Federation"), that the planned privatisation involves a move "from an absolutely artificial to a normal economic system".

Privatisation means the assignment of existing socialised property to private owners. But, more fundamentally, it demands effective establishment and protection of private property in its three main

aspects – the right to use property, the right to enjoy the income and the right to dispose of it.

The government hopes – over-optimistically, beyond a doubt – to achieve much of the transformation by the end of 1993.

For 1992, Mr Chubais has set himself three main tasks:

■ To make irreversible the privatisation of small enterprises, by auction or tender.

■ To turn large enterprises into joint stock companies, followed by at least partial priva-

tisation of most of them in the course of 1993.

■ And to solve the problems involved in distributing privatisation vouchers to the population.

Experience in both Poland and Czechoslovakia suggest that rapid privatisation of small enterprises is both feasible and effective. Partly influenced by these successful examples, the decree of the president of the Russian Federation on privatisation, promulgated on 29 December 1991 (decree number 341) puts most small enterprises into the category of "obligatory privatisation".

However important it may be, even small privatisation has gone slowly so far. But a start has been made with a programme that the government hopes will prove a replicable model for the whole of Russia: that for mass small-scale privatisation in Nizhny Novgorod (previously Gorky), Russia's third largest city and traditionally its main trading centre.

This city was chosen by the government and the International Finance Corporation (an affiliate of the World Bank), because of the enthusiasm of the governor and mayor and because of the relatively low level of corruption in that city.

The intention in Nizhny Novgorod has been to sell off some 2,000 small businesses over the six months following the start of the programme in March. Privatisation is by auction, either of long-term leases or of outright ownership in the case of stand-alone premises. But some product lines, notably bread, will have to be kept by auctioned shops for a year. In addition, existing employees enjoy discounts in the auction.

The auction in Nizhny Novgorod has started successfully, argues the minister, if in a small way, with just 21 shops sold at the first auction on 4 April. But a precedent has now been established, one that the rest of Russia will be required to follow. To that end, the government will use what Mr Chubais calls "traditional instruments", acceptable to the normal Russian mentality. We have mandatory tasks for each region, which now the privatisation of enterprises that must be privatised by the end of this year.

As is shown in the chart, the December decree lays down such quotas in fine detail, to be acted upon by regional governors appointed by the president.

What will be the fate of recalcitrant governors? They

will be dismissed, says Mr Chubais. But he is hopeful that this will be unnecessary, since "normal bureaucrats don't want to be the first, but also don't want to be the last. Each must now choose his own strategy, because the way is now clear. They know that if they are the last in the queue, there is a danger that they will be dismissed."

It is not just a governmental position, but the position of President Yeltsin. We have enough instruments to force local authorities to do the job," he says – though, Mr Chubais admits, this may well not apply to the autonomous republics.

Resistance of local authorities is only a part of the problem. That of managers and workers is at least equally significant. The need to carry out privatisation quickly is why Larissa Piyasheva, adviser on privatisation to Gavril Popov, the radical mayor of Moscow, recommends selling property at low prices to workers' collectives.

Strong objection to Ms Piyasheva's views comes from Elena Kotova, until recently General Director of the Moscow State Property Office. For her, as for Mr Chubais, auctions of property are essential. Such ideological conflicts, along with the fierce political struggle between the mayor and the Moscow City Soviet (council), have led to a stalemate on privatisation in Moscow. Mr Chubais, for his

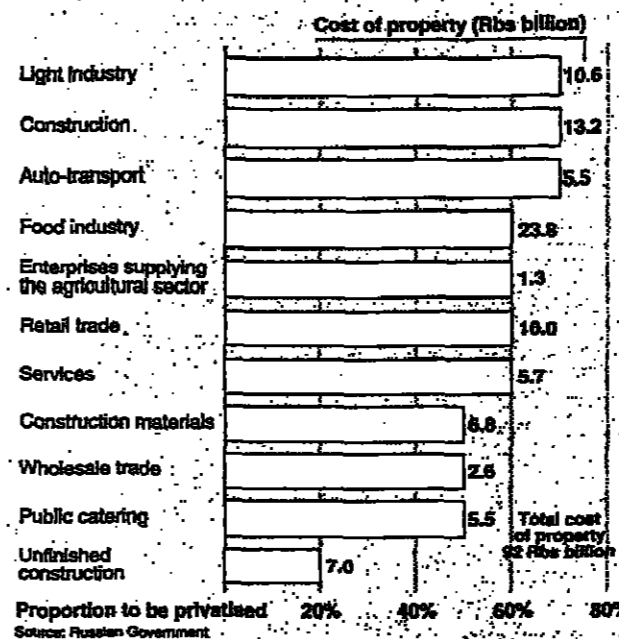
part, reluctantly accepts Moscow's autonomy as, in his words, "another republic".

But for Russia as a whole, he far prefers auctions: because merely granting enterprises to workers at a negligible price does not change their behaviour, because the revenue generated by privatisation in 1992, up from Rb200m in the whole of last year – is itself valuable; because benefits from transfer of state property into private hands should be shared by the population as a whole, not just by workers; because experience in Nizhny Novgorod demonstrates that the objections of workers' collectives can be overcome, especially if many win in the open auctions, as they have in about a third of the cases; and because auctioning need be no slower than giving enterprises away.

The government believes that it is its duty to "find a balance between the interests of those inside and those outside the enterprises".

It intends, therefore, that in the privatisation of both small and large enterprises "there will be privileges for different social groups; it is very important that people do not feel this exercise is for the benefit of the old nomenclature and the

## Targets for privatisation in 1992



Proportion to be privatised: 20% 40% 60% 80%

Source: Russian Government

mafia." Workers, for example, will receive 25 per cent of the equity in larger enterprises, and managers 5 per cent, but both in the form of non-voting shares free of charge. Workers will also have the opportunity to purchase an additional 10 per cent of shares in their enterprise at a discount of 30 per cent. For similar political reasons, privatisation vouchers will be distributed, not later than autumn this year, says the minister, with the precise details of the scheme to be decided by mid-May.

Meanwhile, for Russians who can afford to pay – of whom a part will, indeed, be drawn from those who had been high up in the previous power structure, or who had acquired their money illegally – there will be an open auction of shares, without any privileges.

All this assumes that the government can halt, or at least contain the pace of "spontaneous privatisation", whereby managers of enterprises and local bosses are diverting the assets of state enterprises into their own hands. Mr Chubais is optimistic – "we have had no legal basis for privatisation until now; all privatisation has been semi-legal. The only way to curb spontaneous privatisation is to introduce a normal legal structure," he says.

Now that the west has made a commitment to provide \$2bn to Russia, Mr Chubais also expects that there will be a substantial capital inflow into the country. Foreigners will, therefore, be allowed to play a part in privatisation. But the minister says that there should be no special exchange rate for the ruble, to be used when buying shares, as was formerly noted.

Instead, Mr Chubais says that the Government intends to "multiply the book value of the property (when sold to foreigners) by some co-efficient. There could be special auctions only for foreigners – but this is still to be decided." A special privatisation programme is also being prepared in the

perhaps through use of foreign credits.

Nobody can have any doubt about the scale of the obstacles – social, political and economic – to the property transformation that the government is intending. The question of privatisation of land, for example, is still highly sensitive, as was shown in the debates in the Congress of People's Deputies.

Privatisation of large enterprises raises still more difficult questions.

Will the government be able to bring these enterprises under effective state ownership once more, this being a necessary condition for their privatisation?

Can it implement the kind of voucher system that has so far defeated the Poles?

Will owners and managers be found who are capable of steering the giant enterprises of the former Soviet economy within a competitive market economy?

Can the government make bankruptcy a credible sanction against their failure?

Last, but far from least, can the government avoid the need for comprehensive prior restructuring of unviable enterprises and, if not, does it have the resources, both human and financial, to bring such restructuring about?

Privatisation is, it is now clear, no magic wand. The Polish precedent shows that Russia will be struggling with the industrial legacy of the Soviet state for years, if not decades. Nevertheless, if the government were to achieve even a small part of what it now intends, the counter-revolution should prove irreversible.

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ARTHUR ANDERSEN

## Profile of a young Russian entrepreneur

### Champion of free enterprise

A PHYSICS graduate, Mr Karim Argibayev, 28, used to dream of devoting his life to science. As it happens, he turned out to be more suited to making money in the new Russia.

Occupying a little office leased from a scientific institute in Siberia, Karim Argibayev has all the qualities it takes to make it as an entrepreneur in the former Soviet Union: brains, contacts, daring and a willingness to get his hands dirty.

His path to success is typical of a first generation of *businessmen* (businessmen) to grow up in the rubble of Communism but who are still perceived by the people at large as *spekulyanty* (speculators). The day I met him he was taking a second-hand Japanese car to a bank manager as a present for lending him Rb15m at 30 per cent interest for nine months. With monthly inflation estimated at 40 per cent, such a negative interest rate was indeed worth such a gift.

Karim's career started just three years ago when he decided, upon finishing his military service, to take advantage of a new law allowing the establishment of co-operatives.

Thanks to the new legislation, Karim was able to do legally what blackmarketers under the late Soviet leader Leonid Brezhnev did illegally. He set up a co-operative to bottle the *ginseng* lotion made in his native Kazakhstan. But "because it takes time to get money back on productive investment," he also opened a

small firm called ARNA for lucrative trading in goods in short supply.

His business plan for ARNA, of which he designated himself chairman with a board of directors, was breath-takingly simple.

On the strength of a contract he concluded to buy imported audiocassettes in the far eastern port of Vladivostok, he persuaded a friendly bank manager to lend him Rb15m for three months at 15 per cent. He put Rb50,000 into ARNA as its starting capital and bought a container full of audiocassettes.

He then sold the cassettes, bought himself a car, house and a dacha, and returned the money to the bank. He then borrowed a further Rb8m from another bank, hired some people to work for him, bought a second car and... a new batch of audiocassettes.

Having repeated this process a few more times, but not returned the subsequent bank loans, he now has outstanding debts of Rb28m.

While other entrepreneurs laundered Communist party funds or stole state property to get started, Karim accumulated his capital on the back of the primitive Soviet state banking system. Each loan was rewarded by a present for the bank manager – usually a micro-cassette player or a microwave oven – without which he would have been told that credit was either not available or only offered for a triple-digit rate of interest.

The beauty of the whole scheme now is that should he

default, the banks will not be able to seize the cars and dacha because the money was lent to ARNA as a limited company.

On the production side, Karim has used some of the money to set up a small factory on leased premises at the state-owned Botanical Gardens, just outside the Novosibirsk *akademgorodok* (academic township). In return for his co-operation, the Botanical Gardens director has been given shares in the enterprise, which produces *ginseng* essence to revitalise tired Siberian miners.

From Karim's viewpoint, he is simply spreading wealth and benefiting from a vacuum of effective laws to regulate business activity.

From a young age, he was well-disposed towards free enterprise and capitalism – "my grandfather was shot by the Communists; my father brought me up not to like them."

Having attended a special school for children with scientific talent, the affable young man quickly decided after university and a year working at the Institute of Inorganic Chemistry that science was not for him. He preferred "working with people."

His next project is to set up investment trusts for Russian capitalists to fund research by civilian-oriented technology – "otherwise we will pay for this in future by relying on foreign brains."

Leyla Boulton

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DAVID P...

The regions and peoples within Russia face three massive interlocking sets of problems, explains John Lloyd

# A new balance must be struck



Many memories: like millions of Russians, this elderly man in Red Square, Moscow, is struggling to come to terms with changes at all levels of society

DEPRIVED of an empire in the space of six years, Russia now struggles to control her own territorial space. Reform here has marched at a much slower pace than in the economy, or in such civil freedoms as speech and travel: naturally, for here is the most intricate knot which the new state must unravel.

It faces three massive interlocking sets of problems. First, the Russian government must find a new relationship with the peoples within Russia, and with the authorities of the administrative/national divisions which have been bequeathed it by the Soviet system.

These divisions - autonomous republics, districts and regions - were formally "autonomous": actually, they were strictly subordinate to a centralised state and party.

In the time of collapse of these institutions over 1990-91, the republican and local administrations took powers into their own hands - indeed, they were explicitly encouraged to do so by Mr Boris Yeltsin, who later became President of Russia with a necessarily quite different agenda.

Now, a new balance must be struck: one which allows devotion of government to effective administrative authorities while retaining - or rather, winning back - effective power for the centre.

A Federation Treaty, signed in April of this year with much celebration, was advertised as doing just that. In fact, it leaves out of its scope two important republics, Tatarstan and Chechen-Ingushetia: even more importantly, those republics within the treaty have in many cases struck unpublished deals with the central government which give them large control over, particularly, exports - and which undercut the ostensible rule of law with a reversion to the past practice of backstairs arrangements.

Secondly, and linked to the first, is the necessity to make the central writ run everywhere. The dissolution of the centralised state has left, not market relations, but a legislative and economic free-for-all in which all seek to maximise their position.

Regions, districts, cities, even enterprises seek to escape government control, especially taxes. Where they can, they look abroad for export contracts, in order to obtain hard currency.

The buying, selling and grabbing of property, nominally under state control, goes on relatively freely, usually without effective intervention or hindrance.

The corruption of public authorities at every level, against which the Government

and the parliament constantly rail, makes the observance of central power not a matter of law, but at best of negotiation.

Thirdly, Russia must come to terms with the fact that millions of Russians now live in "foreign" countries which they had been accustomed, regarding, at least in part, as extensions of their homeland.

In Ukraine, Kazakhstan, the Baltic States, the Caucasus and in Central Asia, men and women who had settled in areas often colonised by Russia for centuries find themselves in the vertiginous and poignant position of having to choose a nationality, and all that goes with it - language, culture, education, loyalty.

It is as yet ill-equipped to deal with these issues. Most importantly, it has no reform constitution. The Congress of Russian Peoples Deputies which met for much of April had before it several competing drafts of a new Russian Constitution - but refused to consider any of them.

The state thus still operates on the basis of a patched up Soviet-era constitution - which still, bizarrely, acknowledges the existence of the

Soviet Union, thus giving the communists the opening to argue that the destruction of the Union was unconstitutional.

The official draft of the constitution assumes the existing territorial divisions, and seeks to apportion powers between them and the central government: only the draft of the constitution prepared by Mr Anatoly Sobchak, the Mayor of St Petersburg, seeks to replace these divisions with new administrative areas - on the basis that the old are hopelessly enmeshed in the structures of the old regime and cannot be "democratised" simply by being shifted under the aegis of a presidential, or for that matter a parliamentary, republic.

The creation of the Commonwealth of Independent States in December last year - even while the Soviet Union still had a formal, legal existence - was designed in Russian minds to provide a framework within which some things would continue as before - including a common citizenship.

The inability of the CIS to provide such a framework, or so far to substantially mitigate



the tensions between communities within its territories, faces the Russian state with the necessity of finding for its "expatriates" a modus vivendi with the states in which they are now located. This has yet to appear.

Three critical areas will point the way. In the three small Baltic states of Estonia, Latvia and Lithuania live nearly 2m Russians.

All three of these states have set out constitutions which, at the minimum, would force the Russians who stay to learn the local language (which many had never tried to master, living as they often do in Russianophone communities) in order to hold a job, and would often disqualify recent entrants from citizenship.

Discussions between the Russian and the Baltic governments on these issues, and on the removal of the former Soviet army from these states' territories, have been sporadic and slow: constant expressions of frustration are made on both sides.

Second, in the TransDniester area of Moldova, a strip of land between the Dniester River and Ukraine, live a majority of Russians and Ukrainians: the former have been especially active in proclaiming the area a republic, and have conducted a sporadic war with the Moldovan militia.

The desire of the Russian government to seek a federal solution to the issue meets the so far uncompromising demand on the part of the Moldovan authorities that Moldova be a unitary state - while powerful elements in or near the government raise the possibility of a future unification with Romania, to whose people the Moldovans are ethnic kin.

Third, the Crimea, in the

south of Ukraine, is soon to hold a referendum on independence with the option of an alliance with Russia. Crimea, Russian territory until capriciously given to Ukraine in 1954 by Mr Nikita Khrushchev, has a majority of Russians: it is also home to the Black Sea Fleet, the bulk of which Russia claims.

The return of Crimea is a popular cause in Russia: its loss cannot be tolerated by the Ukrainian government. A crisis over its status could threaten the security of the very large Russian community in Eastern Ukraine, until now peacefully integrated with the Ukrainian population.

These are the national challenges which now face Russia: all are, of course, susceptible to compromise and to negotiation, and in most cases there are forums and mechanisms in which such negotiations can take place, or actually are taking place.

But their success depends on the ability of the governments in question to be able to deliver, and to survive, compromise: and in nearly every case, the post-Communist governments have come to power under the banner of a resurgent nationalism, often at least covertly strongly anti-Russian.

At the same time, as the recent Congress showed, both the "nationalist" and the "democratic" forces in Russia regard the protection of Russian interests as the fundamental base of their politics, the neglect of which would threaten their fragile cohesion and popularity.

The largest element of hope is that the present Russian government is headed by leaders who appear ready to go to the political limits to avoid the charge of acting in an "imperialist" fashion. There has been no official support for the TransDniester rebels: no official agitation among the Baltic Russians.

In a recent interview, Mr Andrei Koryev, the Russian foreign minister, made clear that in every one of these crucial theatres, he was open to compromise and to a settlement which answered the criteria of human rights, not of narrow Russian national interests.

Internally, the flashpoints of Tatarstan and Chechen-Ingushetia have not been confronted with military power but finessed - put into negotiating processes with the clear statement that separate arrangements should govern the relationship between the Russian authorities and these states.

In both these cases, there are signs that internal dissent to the present governments might take a "pro-Russian" form - or at least, propose a solution in which the clear dependence

of both on the Russian market and infrastructure would find a correlative in the political level. The example of Georgia - where a violently anti-Russian nationalist government was overthrown in favour of one led by Mr Eduard Shevardnadze, the former Soviet Foreign Minister, which seeks rational accommodation, is encouraging.

But the problems cannot be forever finessed. To withstand the further, and deeper shocks which economic reform promises all of the states of the former Soviet Union, central power must be seen to be both effective and undiscriminating.

The law must be seen to be the law from St Petersburg in the north west to Vladivostok in the south east. The construction of a law-governed state, the as-yet unrealised project of national independence, is at its earliest, most fragile stage.



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## THE REFORMING OF RUSSIA 6



All change at the Kremlin: most of the key ministers are in their mid-30s, the youngest cabinet in Russian history

## THE NEW GOVERNMENT

## Something of a miracle

THAT A COUNTRY as conservative and closed as Russia should have such a bright and westward-looking government is really something of a miracle.

It is a sign of Russia's desperate situation that the team of economic reformers led by Mr Yegor Gaidar, the 36-year-old first deputy prime minister, has come to power. With most of the key ministers in their mid-30s, the youngest cabinet in Russian history is being entrusted with the momentous task of switching the country to a market economy after 75 years of state planning.

Six months on, they are still

in office because the older generation, discredited by the failure of the socialist experiment and five years of tentative economic reform under President Mikhail Gorbachev, has failed to come up with an alternative.

Apart from a package of go-it-alone market reforms which would bypass disagreement among republics, Mr Gaidar, an academic with no experience of government, was able to sell President Boris Yeltsin a ready-made government team - made up of like-minded economists who also happened to be his friends.

The team's roots go back to the 1980s, when they held unofficial seminars on market economics at a time when such ideas were just beginning to gain currency in very limited circles.

Mr Gaidar, an exceptionally bright, suave and persuasive figure, very soon emerged as their leader, his time as economics editor of the Communist party journal in the late 1980s giving him the opportunity to publish pro-market views.

The 36-year-old privatisation minister, Mr Anatoly Chubais, a graduate from Leningrad's Economics Institute, had been friends with Mr Gaidar ever since they began clandestine studies of market economics together in 1979.

The Latvian-born Mr Peter Aven, the foreign trade minister, who is also 36, and the only non-Russian in the cabinet was in Vienna researching economic reforms in eastern Europe before he came back to Moscow.

Mr Alexander Shokhin, who used to advise Mr Eduard Shevardnadze when he was still Soviet foreign minister, acted as the stalking horse for the Gaidar team to take over. He was labour minister in the previous back-biting Yeltsin administration.

Although only half a dozen are ministers, there are several other allies scattered round in the top echelons of the administration. There are so many qualified economists in the Gaidar team that there will be very few economists left to take over should they fail.

Mr Konstantin Kagalovsky, who is responsible for negotiation with international organisations, provided an international connection for the group when he set up a Market Institute sponsored by the London-based Institute of Economic Affairs, the Thatcherite think-tank.

Like their predecessors in eastern Europe - Poland's Mr Leszek Balcerowicz and Vaclav Klaus in Czechoslovakia - the Gaidar team is more free-market than many of their foreign advisers. Their common ideological front - allergy to the old system - translates into a mix of orthodox free market economics and admiration for Margaret Thatcher's strength of character.

This is tempered by political realism - about what it is possible to get away with in Russia - as witnessed by their decision last month to loosen their tight credit policy at the risk of triggering hyperinflation.

Apart from the support of Mr Yeltsin, the team's unity has proved its main strength in surviving the murderous world of Russian politics. In the absence of strong parties, Russian politics, usually depressingly, and dangerously, boils down to petty jealousies and power struggles among personalities, all jockeying, in true Soviet fashion, for the top leader's seat.

Mr Gaidar and his critics started off by not expecting him to last long in office. But having matured fast as a politician since taking office in October, and then putting up a ferocious fight for his reforms in parliament, Mr Gaidar emerged from last month's bruising Congress of People's Deputies with a new self-assurance.

Although disarrayed by their trouncing, many of his pro-market opponents still see themselves as a second tier of pro-market reformers, waiting in the wings to prevent a fascist Communist takeover should the government collapse under a wave of spontaneous popular anger.

"We want more gradual reform more focused on the population, because Russia is

used to living slowly but is used to equality, explained Mr Oleg Plotnikov, a young pro-market member of the Smena ("Change of Guard") parliamentary faction which wants more power for parliament.

Although superior to anything else on offer so far - "we are often accused of being arrogant," says one Gaidar aide, "but perhaps that arrogance is justified" - the government is by no means all sweetness and light.

Mr Grigory Yavlinsky, the chief Soviet economic strategist, who struggled between the August coup and the collapse of the Soviet Union to build some kind of economic union, accuses them of outright opportunism. He proudly describes a stormy scene in his office late last year, when he turned down a job offer from Mr Gaidar and accused him of tailoring his go-it-alone Russian economic reforms to suit the new isolationist mood of the country's political masters.

Their appeal to the West as normal, articulate human beings eschewing the old traditions of Soviet bureaucrats.

The new team's unity has been its main strength in surviving the murderous world of Russian politics, reports LEYLA BOUTON

does not necessarily translate into affection for them within the Commonwealth.

The team's self-confidence - which took the form of bypassing parliament and offending people like the central bank chairman - has also irritated many older Yeltsin supporters who have been shunted out of the president's "in" crowd.

Ms Bella Kurkova, an influential St Petersburg journalist and deputy in her 30s, recently complained on her own TV programme that the government was inaccessible. What she really meant to say, as she commented with St Petersburg mayor, Mr Anatoly Sobchak, was that they were inaccessible to them.

But one intelligent thing this team has done is to hire, as government advisers, outside experts who might otherwise enhance their image - "all you have to do is criticise the government to get a job offer," joked Mikhail Leontiev, economics correspondent for *Novaya Gazeta* (Independent) newspaper, who claims he turned down such a proposition.

Mr Yuri Boldyrev, a rising young star of Russian politics who made a name for himself pushing for the split of the Communist party, was recently appointed head of the government inspectorate. Mr Mikhail Gurtovoi, a top investigative journalist, is Mr Gaidar's adviser on fighting corruption.

They have also used foreign advisers - including economists such as Jeffrey Sachs whose support has even extended to helping one minister give his first foreign press interview - to drum up support and sympathy for their reforms in the West.

The \$24bn aid package - granted by western governments in time to support them at the Congress of People's Deputies - has become another argument for them to stay in power. But as President Yeltsin demonstrated when he said Russia would not be taking orders from the International Monetary Fund, the government - which openly says it would like its central bank to be run by the IMF - has to be careful to avoid accusations of being too subservient to the West.

Many Russians believe the mafia has simply changed its colours

## Battle against corruption

"YES, a clever man cannot but be a cheat," wrote Alexander Griboyedov, the 19th century Russian writer, in the play, *Woe from Wit*.

Throughout the centuries, Russia has been notoriously corrupt. But racketeering, influence-peddling and embezzlement have come to play such a large role in everyday life that the word *mafia* is now one of the most frequently used words in the Russian language, writes Leyla Bouton.

Another peculiarity of life in the former Soviet Union is that the word as used in Russian has no precise analogy anywhere else in the world. It describes not a group of "god-fathers" (although there are such figures, too) but an all-embracing system of crooked practice created by seven decades of Communist rule.

Its foundations: artificially low fixed prices, shortages, total state-ownership of the economy. Its multiple actors: a haphazard but wide-reaching assortment of state or party functionaries, gangsters, entrepreneurs, and petty employees.

"Countries which are called civilised are far from rid of the mafia, but at least they are based on democratic principles which are opposed to the mafia," says Mr Arkady Vaksberg, the country's leading expert on the subject. "A system which is fundamentally rotten cannot fight against itself."

Now that the new Russian government is pursuing bold market reforms to dismantle the old economic system, there is some hope that society can defeat the mafia because its root causes are finally being tackled. Whereas before most forms of business activity could be described as *mafia* because they were illegal, their unbanning removes the justification for at least some of the dishonesty.

However, a weak federal administration, a poorly-developed legal system, and the continued state ownership of most of the economy mean that corruption is thriving as never before. Resistance from old vested interests to the government's privatisation and demonopolisation efforts is also an obstacle to tackling the mafia's root causes.

At stake is the credibility of market reforms which are supposed to benefit all, and not just those who know how to use the prevailing system to enrich themselves.

Today, and not without reason, the Russian public believes the mafia has simply changed its colours. A perception that the new rulers are not only impoverishing people with price liberalisation but may be as corrupt as their Communist predecessors, could well sink the whole



Vice president Alexander Rutskoi: threats and accusations

reform process. The main reason many ordinary people voted for new "democratic" politicians was hope for a more just system.

But *mafiosnost* (literally "mafia-ness") has simply adjusted to new circumstances - a government official sells off state assets at less than their worth in a private transaction disguised as "privatisation."

Prices have been freed but it is still profitable for shop assistants to hoard goods on sale in the shops in anticipation of further price rises. Communist officials have either taken new jobs in the administration or have set up companies with laundered party money.

Poorly-paid civil servants fearful for their future as a result of the political and economic changes have even more incentive to steal than before. Instead of transferring assets from the state to the people, different sets of government officials are fighting each other for control of what they see as lucrative sources of personal wealth.

Foreign businessmen privately complain that they are being asked to pay more bribes even though no company will publicly admit to ever paying any bribes. Foreign companies which do pay bribes are disturbed by the fact that it is no longer clear whom they have to pay to obtain results.

Those who do not pay bribes continue to complain they lose out to other companies which do. The final straw is that whatever morality or discipline which existed under the old Communist system has fallen by the wayside in today's chaotic free for all.

Mr Mikhail Gurtovoi, head of the government's new anti-corruption service, claims that even the attempt by last month's conservative Congress of People's Deputies to remove the government of young economic reformers was a rear-guard *mafia* action to sabotage their reforms.

The reason he agreed to join this government, he says, is

that it "owes nothing to nobody" - unlike the previous administration which he claims relied on support from shadowy entrepreneurs to defeat the old Communist nomenklatura.

Mr Yuri Boldyrev, head of President Yeltsin's government inspectorate, argues that "what is happening in our country now is not even a battle between Communists and democrats, it is a struggle between different power groups in a vacuum of any rules."

While Russia searches for new rules, officials from top down are apparently free to do whatever they want. The older generation is particularly used to disposing of state property as its own.

One high-level example was provided by Vice-President Alexander Rutskoi, who is himself constantly accusing the government of corruption but who last month rang up the chairman of the central bank, Mr Georgy Matukhin, to demand Rb20m credit for the Renaissance Bank.

This commercial bank, which has personal links to Rutskoi, is supposed to provide funds for private farmers - a noble enough cause which the vice-president is supposed to promote. The problem is that when Mr Matukhin refused to grant the funds, the vice-president threatened to have him removed within a week.

Mr Leonid Zaslavsky, former first deputy economics minister last December signed an order one month after the ministry's dissolution, giving valuable export licences for 10m tonnes of oil and 10m tonnes of oil products to a private "charity."

He also transferred computers and cars to a joint-venture called "Russian-Japanese University."

The assets are now being returned after a government crackdown. But, somewhat

inexplicably, charges are not being pressed by the state prosecutor.

Equally revealing from the readiness of many Russians to admit to crooked dealings is the fact that few see that corruption as a crime. Even fewer understand the notion of conflicts of interest.

A senior official at the state oil company of Tatarstan, a republic within Russia which is pressing for independence, admitted in conversation to taking a \$20,000 bribe from a foreign company in helping it work out projects for investing in his republic.

"We got expenses to cover," he explained, saying his Rb4,000 (\$40) monthly salary was not enough to survive on.

A Soviet government official who was laid off in December when the country collapsed told me about how he had received Rb20m from Soviet finance ministry officials who

Continued on page 8



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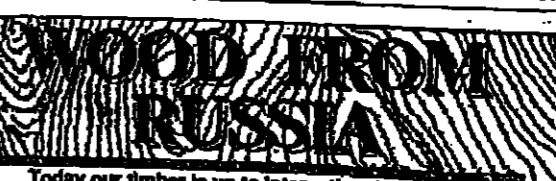
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Farmers face formidable obstacles and agricultural machinery is prohibitively expensive, reports Leyla Boulton

## Food supplies: the biggest threat to political stability

"THERE'S going to be a war here," declared Mr Sergei Boyakov, a fighter on the front line of Russia's battle to switch agriculture from Communism to capitalism.

One of Russia's fledgling farmers (private farmers), Mr Boyakov, 41, is the proud owner of 228 hectares of land in Russia's rich southern Penza region.

He has already made more than a million roubles raising cattle for meat and dairy products. But for months, his biggest headache has been trying to persuade local state farmers to keep their cows off his pasture.

"I cleared this land and planted grass on it, and now they bring their cows to graze on it. I won't have it," he fumes.

Despairing of a negotiated settlement, he is going to hire

**President Boris Yeltsin has ordered the accelerated distribution of land to private peasants**

police to guard his fields. But he fears the quarrel will end in bloodshed.

Mr Boyakov's battle with members of the "Stinking Path" state farm goes to the heart of the difficulties of reforming Russian agriculture, six decades after Stalin herded peasants into collective and state farms.

After millions of peasants died in resisting collectivisation, their descendants are now too used to being paid by the month, with fixed holidays, salaries and social benefits, to go it alone. Or at least they are waiting to see what happens to those who do.

This returns Russia roughly to where it was at the beginning of this century, when Fyodor Stolypin, the reformist tsarist premier, started land reforms to break up the prevailing communal system and develop a class of private farm-

ers. Before they had time to make real headway, the reforms were interrupted by World War One, and then buried by the Bolsheviks. As a result, a country which before 1917 was a leading exporter of grain, is today one of the world's biggest importers.

Today, the collapse of food supplies, which helped trigger the 1917 revolution, is again the biggest threat to the country's political stability - raising fears of a *golodnyy bunt* (hunger revolt) this winter. It is with this fear in mind that western governments, to the delight of their own farmers, are likely to continue subsidising grain exports to Russia for some time to come.

President Boris Yeltsin has ordered the accelerated distribution of land to private peasants, and the "re-organisation" of the *kolkhozy* (collective farms) and *sovkhozy* (state farms) which account for the bulk of agricultural production. This includes cutting off subsidies to loss-making state farms.

But it will still take at least a few years before Russia is able to begin meeting its own needs. Practice shows that the state is still unable to support private farmers on any significant scale, even though their number doubled to 100,000 between January and April of this year.

Meanwhile, the re-organisation of the state sector on market principles - which would have the benefit of maintaining the economies of scale of large scale farming - is so far too superficial to make any difference to its effectiveness.

In Mr Boyakov's Pachelma district for instance, local authorities said they were planning to introduce the unpromising concept of "private collective property."

On one farm which had been reorganised in this way, peasants said the main benefit was that they could be expelled - but they had a very hazy idea of what it meant to hold shares in their farm.

These include an inefficient state-dominated transport system, a monopolistic trade system, and a dire shortage of storage and processing facilities. Agricultural machinery is also prohibitively expensive



Russian soldiers lift potatoes at a farm near Chumkovo, 36 kms outside Moscow

On another state farm, the director helplessly complained that unless he received more money from the state and the government maintained subsidies on energy supplies, he would sink.

In one small sign, however, that new financial pressures may be having some positive impact on state farmers, he also let slip that he planned to raise some cash to pay salaries by selling some produce to a local fair the following day.

But even if some progress is made at farm-level, time and investment are also needed to rectify the structural problems which account for the loss of a third of whatever is produced.

These include an inefficient state-dominated transport system, a monopolistic trade system, and a dire shortage of storage and processing facilities. Agricultural machinery is also prohibitively expensive

because of a lack of competition among the state enterprises which produce it.

In Pachelma district, both state and private farmers complained they had no facilities to pasteurise and refrigerate fresh milk, giving them no alternative but to turn most of it into butter.

It is not difficult to see why milk is still so hard to come by in Russian cities. Mr Boyakov's main complaint is the absence of a developed wholesale market which often forces peasants to use shady intermediaries to find buyers.

"They rake off huge percent-

ages and call it marketing," he jokes bitterly.

Another brake on reform is the fact private property in the strict sense of the word is not yet allowed because of the Russian parliament's refusal to endorse the sale and purchase of land. Land given to peasants by local authorities can be resold only after ten years.

Given deep psychological resistance to change, it is hardly surprising that two signs put up by Mr Boyakov proclaiming "Private Property" have been torn down over the past year.

The first, made of wood, was

chopped down. The second, made of steel, was ripped out of the ground.

The principle is indeed difficult to comprehend for peasants used to being looked after by a state on land which was supposed to belong to everybody and yet belonged to nobody. Running deep in their psychology is a preference that all should be poor together, rather than allow the more enterprising to be better off.

Wearing a neat jeans outfit and trainers, Mr Boyakov looks every bit the part of the "kulak" (the historical word for rich peasant) as he takes on

one of his "enemies" - Volodya, a state peasant with a crudely stitched scar on his cheek and a tattered cloth jacket falling off his shoulders.

Mr Boyakov reiterates an offer to lend his tractors and equipment for them to clear pasture land, while Volodya looks unconvinced and questions his right to the land in the first place. Another headache is theft of his equipment by neighbours.

Mr Sergei Papehev, the former local Communist party chief turned head of the local administration, says he is doing his best to help private farmers. But he claims his efforts are hampered by "the unpreparedness of a material basis" for private agriculture.

Mr Vladimir Yeskin, director of Valovalsky state farm, explained why he himself would not dare strike it out on his own.

"Where would I get fuel and tractors from?"

"Where is the guarantee people won't burn my grain or poison my cattle?"

"Who will stop drunks coming to my farm and doing whatever they want? There is no protection from the law."

Despite all the obstacles, it is clear that farmers like Mr Boyakov, an engineer in a big city before he moved to the countryside, will survive. But as he himself admits, he is really the exception who confirms the rule.

"I succeeded because I knew how to manage, because I could express myself, because I could argue my case, because I knew how to ask for things, and whom to give money to and who not to give money," admits Mr Boyakov. "Only this has saved me. But it is much more difficult for peasants who

have lived in the countryside all their lives because they don't even know the basics of doing business in this country."

Since he received land in December 1990, Pachelma district has registered 57 private farmers, who have got under plough 2718 hectares of arable land - a modest start in comparison to the 80,000 hectares held by the district's 14 state farms. Because it is in his interest to have allies, Mr Boyakov is now trying to help six brothers make a success of their private farm near the Valovalsky *sarhan*.

But the obstacles may prove insurmountable for the weaker farmers who do not even know where to turn for help.

Three months ago, Ms Galina Katchikova, a former nurse turned "farmer" in the Smolensk region west of Moscow,

**Difficulties may prove insurmountable for the weaker farmers who do not even know where to turn for help**

could look to the future with optimism.

She had bought machinery, built a house, and been given both land and soft loans by the local authorities. Since then, her house has been burnt down and she has run out of money to buy seeds.

Unless she is able to raise Rhs131,000 by the end of the month, she will miss the sowing season, and the chance to begin repaying her bank loans. If she fails, all the soft loans spent on her so far by the state will simply have been wasted, and a dream of a lifetime shattered beyond repair.

**The industry needs investment that the government does not possess, reports John Lloyd**

## Oil: the state's most prized resource

OIL remains the most prized and precious resource of the Russian state: the one which gives this, of all the states of the former union, the best long chances of success - if the industry, now falling, can be renewed and revived.

In the short-term, the industry presents a grim picture. The London-based Centre of Global Energy studies forecast earlier this month that the 515m tonnes of production last year from all the former Union republics - dominated by Russia, but with significant production from Azerbaijan and Kazakhstan - would fall to between 460-470m tonnes in 1992.

Separate figures from the World Energy Analysis and Forecasting Group earlier this year show Russia down from a level of 482m tonnes this year to between 396-412m this. At the same time, demand in these states would remain high - at about 420-470m tonnes in spite of falling production - because of difficulties in the supply of other energy sources, notably coal and nuclear electric power.

On this analysis, it is easy to see states formerly oil-rich realising a scenario only last year dismissed as absurd: that they become oil importers in the first half of the 1990s.

To avoid this, the industry needs investment the government does not have, technology the country does not make and management and exploitation skills the industry has not developed. Logic thus points to extensive foreign involvement: as yet, there have been only tentative engagements which give mixed signals.

After a prolonged and confusing struggle between different levels of administration, the government awarded a contract for the feasibility study of offshore oil reserves off Sakhalin, in the far east, to the 3M consortium of Mitsui (Japan), McDermott and Marathon Oil, (both US). The award of the feasibility study would normally be expected to result in a substantive exploration contract - but while this is world practice, there is no precedent in Russia.

The French company, Elf Aquitaine, has signed two exploration deals - one with Kazakhstan and one with Russia for exploration in the Saray Volgoograd area. In doing so, it has put itself ahead of the rest of the foreign companies,

who still worry about legislation, tax rates and political instability. Elf executives admit to the risk, but decided to plunge.

These worries are real and intense. They have not stopped most of the oil majors, and many of the minors and oil service companies, beating paths to the former Soviet Union: but they have, as yet, stopped substantial deals.

In particular, the recently imposed export tax of 26 per cent a tonne is seen as a big deterrent, and is the particular object of lobbying on the part of the companies. Mr George Reese, the managing partner of consultants Ernst and Young in Moscow, says that "without the tax, you would have had a dozen major deals by now."

The various authorities still active in the industry compounds the problem. A new Ministry of Energy, under Mr

**Logic points to extensive foreign involvement in Russia's oil industry, but as yet, there have been only tentative engagements which give mixed signals**

Vladimir Lopukhin, is thrashing out legislation: but the state oil company, Rosneftgas, continues to operate as a kind of holding company for the state oil corporations: while the local authorities, especially the republican authorities, like those in Tatarstan and Chechen Ingushetia (both of which, significantly, have declared "independence" from Russia), insist on oversight at least and more often on the right to choose and to veto.

Rosneftgas has taken advice from the Daiwa Bank and from Bankers Trust on how to restructure itself: it remains, however, an anomaly, poised awkwardly between the companies which fund it and the ministry which duplicates many of its functions. Mr Reinhold Heus, head of Daiwa's energy division, says that "there is now a debate on Rosneftgas' future - it may become a state oil and gas company, as we have in the west; it may provide central services for the companies on the purchase and supply side; it may become more of an association. It must justify its existence to the com-

panies: if it doesn't provide a service, then there would be serious questions asked about its existence."

There is now legislation passed on underground resources, and a licensing law is in draft. The latter puts foreign and Russian companies on an equal basis, and proposes an auction system for licensing rights: as in many western countries, the companies cannot buy the wells outright. Further legislation which, it is hoped, will flesh out the details of licensing procedures and pipeline transportation, is now being prepared with the aid of western experts under Professor George Hardy, former Dean of the Law Faculty at Houston University.

Domestically, the government has allowed the producers to sell up to 40 per cent of their production at free prices through the oil exchanges (it can be exported only under licence); and it still plans to "free" prices (up to about one third of world levels) by the middle of this year, a move expected to add 50-70 per cent on all prices.

Mr Lopukhin says that he wants to get "vertical integration" in the industry to bring together the former conglomerates organised territorially: once that is effected, the companies will be transformed into joint stock corporations and shares will be issued. Already, two conglomerates - KNOS and Lukoil - have been formed which unite transport and refining facilities across Russia.

Change is now relatively rapid, but confusion remains - and even, is multiplied. At the core of it is a still unformed relationship between the centre and the regions on the one hand and the companies on the other. This is not in itself out of line with world practice: Ms Christine Ferguson, a lawyer specialising in energy with the UK law firm Norton Rose in Moscow, says that "most western federal countries which are oil producers have disputes between the centre and the states, some of them very bitter. There is usually a deal which splits the proceeds."

For all the confusion, the movement is presently clear: towards greater integration of the industry with the world. Given success for the economic reforms, that integration should proceed.



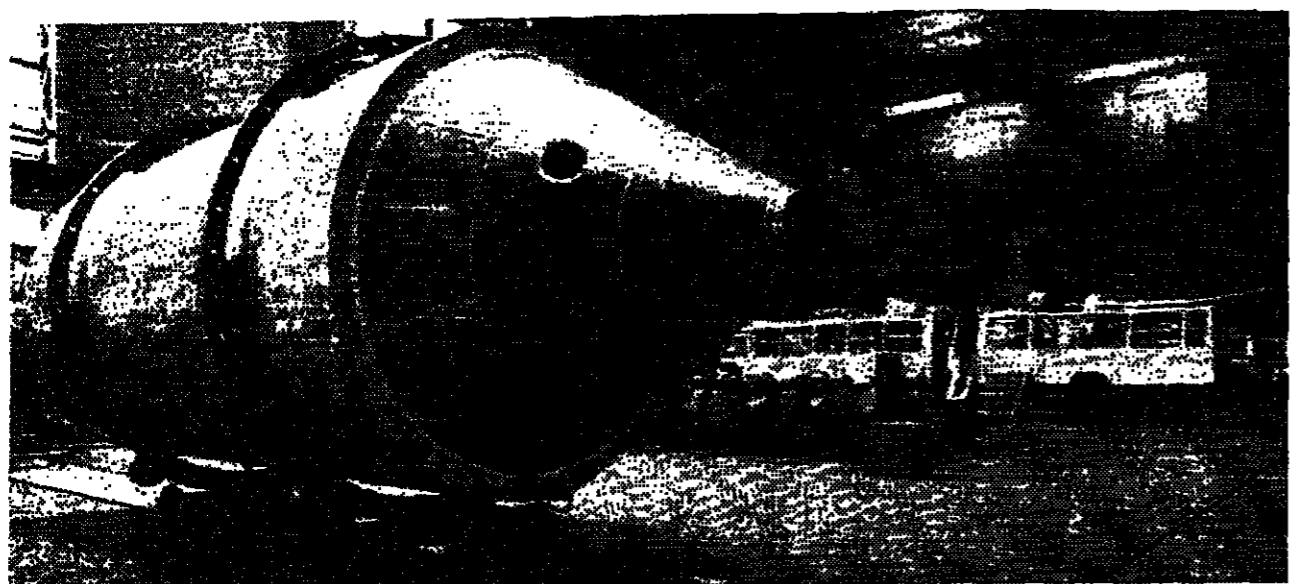
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## THE REFORMING OF RUSSIA 8



Sign of the times: grain silos, made from unused rocket casings — and from old trolley buses — at the Yuzhny missile factory

Drastic cost-cuts in research and defence projects have left top scientists with an uncertain future, reports Leyla Boulton

## A wealth of spare talent

FOR DECADES one of the showpieces of Communist rule, Russian brains are turning out to be one of the better buys for investors seeking opportunities in the newly-capitalist country.

The Soviet Union's collapse last December, followed by price liberalisation and drastic government spending cuts in January, has left an impressive state-sponsored system of scientific research in complete disarray.

This, in turn, has opened up the chance for outsiders to tap the wealth of scientific talent in Russia and the other newly-independent republics.

In the meantime, the disintegration of the old Soviet system has triggered fears among western governments that underpaid scientists will sell Soviet nuclear and other military secrets to Third World dictators.

These fears are no doubt exaggerated — there are still restrictions on the scientists' movement, the Russian government has promised to increase their pay, and many do not actually want to leave the country.

Still, the future appears extremely bleak to many scientists, who have been looked after by the state all their lives and now have to find their own solutions — "if they told us to be patient for a year or two, then we could at least go and work as doormen in the meantime," says Sergei, a computer programmer who has not been paid this year.

While his institute waits for overdue grants from the state (the government blames a physical shortage of banknotes for the delay), Sergei and his colleagues are surviving on a few unofficial orders from defence and other state-owned plants.

But even these are at risk because the industry's own financial resources are rapidly declining as a result of "across the board" spending cuts. These include a reduction in defence procurement — a leading employer of scientific talent — to 13 per cent of last year's level.

Some scientists have lost no time in helping themselves. One such pioneer is Professor Boris Babayan, who created the supercomputers used in the Soviet space programme and the design of nuclear weapons. He and a team of colleagues at the Institute for Precision Mechanics and Computer Technology are now putting the finishing touches to an agreement to carry out research in Moscow for Sun Microsystems, a Californian computer company.

Prof. Babayan, seeking funds to complete work on a new super-computer, the Ribus 3, began talking to foreign computer companies a year ago. He is not saying how much Sun will pay him and his colleagues, but it does not take much to improve on his current monthly salary of Rb2,000 (\$20) a month.

Other scientists are choosing

to leave the country. One of Prof Babayan's colleagues is emigrating to the US, while three others have taken a prolonged leave of absence of abroad.

While such solutions may secure the future of the very top scientists or those with easily marketable skills, such as programming, they will not be applicable to all.

Nowhere is this clearer than in the *akademgorodok* (scientific village) set in beautiful forest-land, 30km outside Novosibirsk, the biggest city in Siberia.

Conceived in 1957 as a place for scientists to think in peace and live in comfort, it contains more than 20 research institutes — ranging from nuclear physics, mining, inorganic chemistry, and semiconductor physics. The livelihood of 30,000 scientists, receiving an average monthly wage of Rb1,400, depend on it.

"Our policy is to hang in here until the very last. There's nowhere else to go," says Mr Sergei Kuznetsov, a 44-year-old mathematician at the local Computing Centre, which can carry out mathematical modelling for everything from the weather to military aircraft.

Apart from the shortage of housing which makes it difficult to move ("we're no longer tied here by internal passport rules but by our apartments"), Mr Kuznetsov says sharp price rises make it prohibitively expensive to travel around to

look for other jobs. An air ticket to Moscow costs Rb540 — or a third of his monthly salary.

He heads the Computing Centre's department for seeking foreign grants to fund joint research projects with the outside world — "it's embarrassing to seek help," he says. "But we perfectly understand that the hand of the state will not reach out to us. We have to do something ourselves."

"Before, we always felt important. Fundamental science used to be one of the achievements thanks to which we compared ourselves to the civilised world, but now we live in a situation where there is little money, poverty and unemployment."

Some western public money, at least \$40m already pledged by Germany and the US, has already been promised for a centre within Russia to occupy scientists involved in nuclear weapons production.

Western backers of the project explain that the aim is to attract matching private funds for joint research projects.

Another way out is through domestic entrepreneurship. In a small factory set up on premises belonging to the Botanical Gardens, just outside the *akademgorodok*, Mr Yuri Yurchenko, a microbiologist who used to be involved in the production of biological weapons, now oversees the production of cosmetics.

□ See also page four: Champion of free enterprise

The ingenuity and ability of Russian entrepreneurs

## Out of the shadows at last

THERE is a little district in Moscow, not far from the prison where the leaders of the August *putsch* are held, where the names celebrate the huge plant in the midst of it: there are *elektrozavodskaya*, or electric factory streets and lanes, an electric factory metro station and so on.

The original plant works still, though there are now three different state enterprises instead of the previous one turning out heavy electrical equipment — transformers, generators and switchgear.

In its shade is a smaller building, which encloses sterile rooms in which white-coated technicians produce quartz crystals, oscillators and microchips, together with calculators, fax machines and telephone handsets.

The smaller plant is called Fonon International: its juxtaposition with its neighbour emphasises the point made by Mr Dmitri Nikitin, Fonon's president — this is that "when the 80 per cent of the economy which made industrial goods, largely for the military, begins to collapse, the 20 per cent which makes for the consumer, begins to be set free."

Fonon International works in the sector now freeing itself from the shadow of the giants as the first declines towards collapse, his grows and flourishes. He is an example of what is happening, here and there: an industrial restructuring, forced by government policy, carried out by entrepreneurs, taking him from the state sector into private business.

"One day I sat down to count how many organisations — of the party, the state, the enterprise, the local authorities — could interfere with my decisions. There were 45."

He also noted that while there were highly skilled people available, "we had no experience of quality mass production."

The company has identified growth markets — of which remote-controlled television sets, not produced until last year, was a significant one. Fonon's quartz crystal oscillator is the technical basis of this industry, and helped explain the enormous explosion in its sales from Rb50m in 1990 to Rb1.2bn last year.

The company is determinedly Russian: Mr Nikitin and his colleagues insist that in the high tech area, equipment and know-how is available

which rivals the leading edge anywhere else in the world — "the educational level is even higher," he says.

His specifications for production machinery have been produced for him in military industrial plants desperate for new orders: his engineers are all Soviet-trained; the good-looking calculators which now come off his lines at the rate of 50,000 a month have some foreign components and casings, but were Russian-designed.

As the official economy contracts sharply, his company is growing wildly. The main expansion this year and next will not, he says, be electronics, but in the wholesale business, trading under the name of Roditi Moscow and run by Mr Vladimir Kryukov, a former physicist.

Mr Nikitin believes that the immediate future will see a drop in retail sales, as people struggle to exist under a high-price regime: but this will be accompanied by a boom in goods for the new shops and businesses and restructured enterprises. Thus he is import-

ing, besides food and textiles, office equipment and furniture, and computers. The company has set up a distribution network with affiliates around the country: it has even developed a credit card for its customers, who are store and business managers.

The operations of Roditi show the ingenuity and ability to take risks needed for the Russian entrepreneur. The company has just signed a deal with Moscow to import 5,000 tonnes of meat for the city: the price set by the Moscow authorities was so low that Roditi must make up a difference amounting to Rb100m between the (hard currency) purchase price and the (rouble) selling price.

Why do it? "Because, in return, we would get a licence from Moscow to sell nickel: and the profits from that would make up for the subsidy we paid on the meat."

He pauses, then adds: "This is risky. We've delivered the meat, but we still have to get the licence. If someone changes his mind, or the person himself changes jobs, then

it could all be gone."

In the manner of Russian companies, he has branched into areas quite different from the core business. Fonon has a company, Yarestavrskaya, in the ancient city of Yaroslavl, near Moscow, with around 1,000 employees, which specialises in restoration — both of ancient Russian monuments and churches and of modern western hotels. It is now just beginning a small air-cargo operation.

Mr Nikitin and his fellows are young enough still — in their 30s or 40s: with a training which they are putting to use, but with the ability to learn the ways of business.

"This is the most difficult area for us. But I think that Russian people are very intelligent and also resourceful: they had to think of so many ways round obstacles that business does not present any problems in principle. But of course they need experience. In three or four years time, Russian businessmen will be, an international force."

John Lloyd

## Decree against corruption

Continued from Page 6

were loath to pass on the money to the Russian government. The money was to set up a socially-useful project.

President Boris Yeltsin last month issued his first decree against corruption, forbidding public servants from getting involved in business, either as intermediaries or employees of private firms.

But Mr Gurtovoi says this is only a first step, which must be followed up by higher pay for government officials so that the administration does not lose its best people to the private sector, "leaving behind the idiots and hardened criminals."

"A civil servant can't live on 2,500 roubles (\$25) a month. If we ban him from using his government position to make money on the side, we need to give him conditions for a decent life — that is a high pension, a guarantee he won't be fired, and a system of privileges which we as democrats used to fight against," he explains.

Likewise, a policeman must know that if he dies, his pen-

sion will be big and somebody else will look after his children. Otherwise he will run away from thieves, rather than catch them."

In the mean time, Mr Gurtovoi, who used to blow the whistle on government corruption as a top investigative journalist, is intent on catching specific individuals red-handed *pour decourager les autres*.

An opposite view is expressed by Mr Arkady Murashov, head of the Moscow police who says there is no point in conducting an active battle against corruption until the old system is dismantled, monopolised and privatised.

A leading young liberal politician, he was appointed police chief last year to clean up the police force.

He agrees that police pay must be increased and says that more effective commercial courts would help reduce violent crime since businessmen would be more inclined to settle their disputes in court rather than employing gangsters to deal with unsettled accounts. But he sees the fight against the so-called mafia as an evolutionary process.

"By the highest standards, the Soviet system is totally corrupt," Mr Murashov admits with refreshing candour.

"All decisions are made by Yeltsin and millions of little bureaucrats. If somebody

famous comes to the mayor of Moscow and says 'I need a building to set up the Gorbachev Fund,' who will take that decision? The mayor."

"And so a building worth millions of dollars will be transferred to that person. And after a certain amount of time, he will be able to let office space to commercial institutions."

"And after yet some more time, it will be transformed into his private property. Is that corrupt? Yes, it is. But that is how decisions are taken. It is the system."

It is not surprising that from this perspective, Mr Murashov is looking forward to the day when he has just a "normal" *majus* to fight — say, a US-style drugs trade.

Mr Gurtovoi retorts that the fight must begin now — otherwise "there will be no tomorrow." He warns of a terrible backlash if market reforms are simply associated with chaos and lawlessness.

"Our people won't let this country turn into another Colombia. Instead, a new Stalin will appear and simply shoot people. If we don't catch thieves now, there won't be anything left to steal."

"We'll show up one day and find the Kremlin has been sold."

Leyla Boulton

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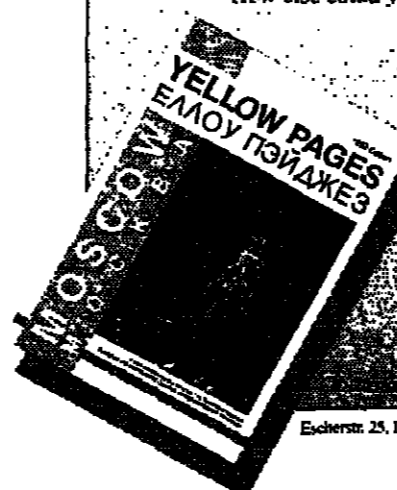
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## THE REFORMING OF RUSSIA 9

After decades of environmental abuse, drastic reforms are needed, reports Judy Dempsey

## Much illness linked to pollution

EDWARD CRANKSHAW once published a set of essays entitled: "Putting Up with the Russians." But perhaps now, since massive military-industrial cities have been opened to the outside world, a subtitle could be added to the book: "What the Russians put up with."

Apart from the appalling state apparatus of fear and coercion which kept this vast country together, the Russians endured decades of ill-health, not only caused by malnutrition, but by the pollution and radio-active waste which devastated large parts of Russia.

A visit to any large city in the Urals confirms what independent-minded scientists knew for many years. Compared to west European levels where the average life expectancy is 76 years, Russia's level has fallen to 69 years over a period of 20 years.

Experts, including Prof.

Moscow, scientists say the dumping of radio active waste has, and will continue, to affect the health of the capital's citizens.

These same scientists are hoping that the revolution affecting the economy will also have a beneficial effect on the environment. But in addressing the problems of the environment, where does one start?

The accident at the power plant in Chernobyl, April 1986, provided the first tentative step towards galvanising public opinion against the poor safety standards of these RBMK reactors.

Mr Yablokov believes that all sixteen of the RBMK reactors which are of the Chernobyl-type, should be closed down, immediately.

The problem is that since these reactors provide about 12 per cent of Russia's total energy needs, any immediate shut-down would lead to a shortfall in energy supplies.

But Mr Viktor Danilov Danelian, Russia's ecology and resources minister, admits that his country's use of energy is inefficient. Not only are prices still low, waste is phenomenal.

"We lose between 10 and 15 per cent of our oil and gas in the pipes, of which many are leaking. We lose about 25bn cubic metres of gas a year. I am sure the real losses are more considerable. They could amount to 30 per cent of our total energy supplies," he explains.

He and other energy specialists also bemoan the fact that households cannot monitor their own energy consumption. Not only is the idea of a thermostat non-existent in most Russian homes. But energy supplies to the domestic consumer are centrally-controlled - normally by the local district council. Mr Danilov-Danelian's office had its own, if not uncommon, thermostat: the window.

The ministry estimates that a sum of \$10bn could enable

Russia's energy supplies to become more efficient, and modernised. This could also allow the sixteen RBMK plants to be closed down. But in a country committed to holding down public expenditure, Mr Danilov-Danelian is not optimistic.

"I asked the Russian government to allocate to our ministry 2 per cent of the credits we will receive from the international community," he adds. He is still waiting for a reply.

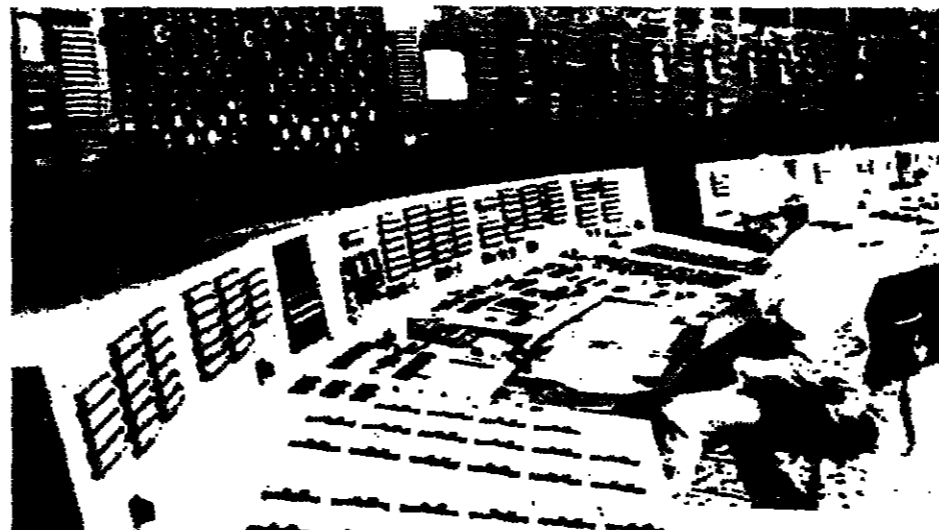
Mr Yablokov, a ceaseless campaigner on the environment over the years says he is in a more fortunate position because he has the ear of Mr Yeltsin.

He says that Mr Yeltsin, since coming to office, has already issued six decrees related to the environment.

In practice, this means very little. The giant engine of the military-industrial complex,



Industry is the cause of many of Russia's environmental problems. Above: smoke billows from factory chimneys on a Sunday afternoon in St Petersburg.



Flashback: the control room at the Chernobyl nuclear plant, before the disaster in April 1986. Environmentalists are now calling for a shutdown of 16 other Chernobyl-type reactors



For this Moscow boy, a long life ahead? Life-expectancy in Russia has fallen to 69 years due to pollution, claim scientists

particularly in the Urals, is not yet, nor will it, grind to a halt. So any reductions in arms production will not have an immediate effect on the environment.

Moreover, a commitment to dismantling Russia's vast arsenal of tactical and nuclear weapons offers nightmares as well as hope for the environment. Defence experts in Moscow recall how, as part of the Intermediate Nuclear Forces (INF) treaty, signed between the US and the former Soviet Union, dozens of tactical weapons were exploded in Kazakhstan.

"I dare to ask what this did to the environment," commented one senior Russian defence analyst.

In the meantime, Mr Yablokov is campaigning for three

things: identifying "zones of ecological disaster," creating national parks; and making the water in Moscow and other cities clean enough to drink.

The many maps on his office wall - a splendid room overlooking the Kremlin - bear testimony to many of these zones which are scattered

throughout Russia and the republics of the former Soviet Union.

Mr Yablokov wants all nuclear testing, and other experiments, stopped. Setting up national parks, he believes, would give the earth time to overcome the decades of abuse. His account of the pesticides

and chemicals which have destroyed Russia's forests and lakes are well-known. That fact also explains the sorry nature of the water supplies.

"For us, the ozone layer is academic. The big issue is the quality of our drinking water," said Mr Yablokov.

Some western financial insti-

tutions are carrying out studies on ways to clean up Moscow's water system. A new water network would, among other things, involve ripping out the worn 19th century sewerage pipes and replacing lead pipes. But the root of the problem would not be resolved: stopping waste from being

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## THE REFORMING OF RUSSIA 10

A radical overhaul of the armed forces presents big problems, reports Judy Dempsey

# Money for butter, not guns, is the priority



Wreath-laying ceremony on Army Day: Russian President Boris Yeltsin at the tomb of the unknown soldier.

AS the legal successor to the former Soviet Union, the reforms which are being undertaken by the Russian government will include a radical overhaul of the armed forces. More importantly, the Russian government will remain committed to introducing sharp and deep cuts in its strategic weapons, as well as drawing up a new military doctrine.

This seems a packed and ambitious agenda over the coming months. But without reductions in the defence budget, coupled with reductions in the production of weaponry, Russia's economic reforms could be jeopardised. Money for butter, not guns, is one of the Russian government's priorities.

Revamping the armed forces is easier said than done. First, there is the question of how to cope with the 12m people who are employed directly, or indirectly with the defence industry. The Russian government is only now coming to terms with this enormous task which will entail retraining, and accepting large unemployment. In the meantime, Russia is trying to convert part of the military industrial complex into civilian production.

For instance, in some of the military factories in the Urals, managers, admittedly with a sense of regret, and shame, about the way the Soviet Union as a super power has collapsed, have stopped manufacturing tanks. At a giant tank factory at Chelyabinsk, in the Urals, Mr Oleg Gux, a floor manager, explained how the plant is now switching production to earth-mover tractors, and equipment for hospitals. However, besides aiding nostalgia for the old days of regular orders for tanks from the Soviet ministry of defence, he conceded that his plant was still producing parts for tanks. Nor is the task of converting tanks into household goods welcomed by sections of the

former communist nomenclatura in Chelyabinsk. They still believe in the "potential enemy" (the west), seeing little reason for accepting such sharp cut-backs in arms production. Indeed, they also still believe they should continue to export weapons as a means of earning hard currency.

Conversion is not an easy process. Besides the social cost of rising unemployment - in one enterprise in Chelyabinsk alone, a work force of 60,000 will be reduced by at least 5,000 - it is costly. Mr Andrei Nechaev, Russia's economics minister says the government would provide Rb40bn in soft credits to cover social costs. "To stop military production, you need money to stop it," he explained recently. Mr Nechaev reckons that the defence budget in 1992 will account for about 6 per cent of GDP.

If military conversion will be a costly, and time-consuming process, so too, will be the attempts to pare down the Russian army. Mr Andrei Kokosin,

one of Russia's two deputy defence ministers - Mr Boris Yeltsin, the Russian president, is commander-in-chief of the armed forces - says the army will eventually total between 1.2m and 1.5m people.

"It will be leaner, more efficient, and more professional," he says. But he, and other defence experts in Moscow are quick to add that provisions have to be made for those who will be retired, or retrained. The last thing Russia wants is a disgruntled, redundant officer class, which is partly at the root of the Yugoslav crisis.

Because of these concerns, Russia is in no hurry to withdraw its remaining troops from the Baltic states, eastern Germany, or the central Asian republics.

Besides the fact that Russian troops continue to play an important role in guarding the frontiers which borders with Turkey and other countries in the south of the former Soviet Union, there is a widespread consensus that if these troops were withdrawn, they would have no homes to go to. This is one of the reasons why troops from the Baltic republics have not yet been withdrawn.

"It is not yet clear when and how we will withdraw these troops. It will be carried out on a case by case basis. But withdrawing troops from the border

with Turkey - which is a Nato country, will be subject to negotiations with Georgia, Azerbaijan, Armenia, and with NATO as well," says Mr Kokosin.

Parallel to the question of troops withdrawals, and reductions of Russia's armed forces, is the question about formulating a military doctrine. Since the cold war has ended, Russia must now ask itself what role the army should play and what defence strategy it should adopt. Mr Kokosin says Russia "will have the foundations of a doctrine pretty soon which should be ready in detail by the end of the year." He envisages the doctrine to include the following elements:

■ A Russian army would consist of a growing proportion of professionals. There will be a shift away from big formations, to corps and brigade structures, with a much smaller number of tanks - a long-standing tradition of the Soviet army.

"We will be moving towards a west-European structure," said Mr Kokosin. The emphasis will also be placed on rapid deployment forces - and rapid reaction forces. The "shock armies" which had been stationed in eastern Europe - the equivalent of the US's green berets - will act in the rear of the enemy in case of war, and will be integrated into the

to deter, the role of the armed forces would be to act quickly and decisively to restore the peace on the terms favourable for those who were attacked.

■ In some cases, units of the Russian army could be stationed on some of the territories of the former Soviet Union - "there will be national armies in these newly formed states. But in some cases, there will be special agreements between the Russian armed forces and the national armed forces - co-operation on training of officers, providing them, not just with equipment but with spare parts, and technical assistance," explained Mr Kokosin.

■ Air defence will also be the subject of bi-lateral negotiations between Russia and the republics. At the moment, air defence is under the control of the Commonwealth of Independent States. Russian defence experts say it is impossible for the Baltic republics to have any kind of serious air defence system of its own.

"I would prefer to have a special agreement with CIS forces and Russia Federation and the Baltic republics, whereby we could keep our radar in Riga, for example, which is very important for air defence. We should probably have a joint air defence system, but under special agreements," explains Mr Kokosin.

So far, so good. But the road to a military doctrine will not be smooth. There are many problems facing the more liberal sections of the Russian defence establishment.

Relations with neighbouring Ukraine, in particular, the future of the Crimea, and who should control the Black Sea Fleet, have to be sorted out. More nationalist-minded politicians, especially those grouped around the Russian Congress of People's Deputies, resent any concessions Russia might make with Japan over the future status of the Kuril islands. And negotiations with the Ukraine over ratifying the START treaty, which entails deep cuts in the former Soviet Union's nuclear arsenal (see report, left: Moscow's concern) have to be resolved.

In the months ahead, Mr Kokosin and his colleagues can expect few days rest.

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